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Unemployment in the New Europe: The Contours of the Problem

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Introduction[1]

There once was a time, not long ago, when Europe was close to full employment. In the 1960's and early 1970s, in the halcyon days after the completion of the recoveries from the devastation of World War II and before the demise of the Bretton Woods exchange rate regime and OPEC's increases in oil prices, unemployment rates throughout Europe were generally in the range of two to three per cent. Occasionally, as in Germany, the Netherlands, and Denmark in the late 1960s and early 1970s, they were even lower, in the range of one per cent.[2] It appeared, as Andrew Shonfield proclaimed in *Modern Capitalism*, that, with few exceptions, governments had, through indicative planning, increased cooperation between business, government, and labor, and the application of Keynesian principles to macroeconomic policy, overcome the job-destroying effects of business cycles and recessions.[3] Even in Britain, where efforts to institute indicative planning and closer relations between business and government had foundered on the tradition of "arms-length government", unemployment in the 1960s and early 1970s was, on average, about two per cent.[4]

Now, some three decades later and in the wake of the major recessions of 1974-75, 1980-84, and 1991-94, Europe is afflicted with enduring high levels of unemployment. Throughout the 1990s, the fifteen member states of the European Union experienced an average rate of unemployment of about 10 per cent, an almost *five*-fold increase from the average rate of unemployment in the fifteen states in the 1960s (See Table 1). Even some five years after the end of the last major European recession of 1991-94, and despite the sustained recovery in much of Europe in the last half of the 1990s, the rate of unemployment remained close to double digits in the EU as a whole and in double digits in the eleven member states that had moved to the third and final stage of Economic and Monetary Union on January 1, 1999 and that constituted the "euro-zone". Thus, in June 1999, the rate of unemployment in the fifteen member states of the EU was 9.4 per cent, compared to 10 per cent a year earlier, and in the eleven states of the euro-zone it was 10.3 per cent, compared to 10.9 per cent a year earlier.[5]

What makes the long-term deterioration in employment in Europe especially notable, of course, is the fact that it has been far more severe than in other advanced economies. Thus, as the data in Table 1 indicate, the average level of unemployment in the United States rose from about five per cent in the 1960s to about six per cent in the 1970s and about seven per cent in the 1980s, and then dropped back below six per cent in the 1990s. In Japan, the rate of growth dropped sharply in the 1970s and again in the 1990s, and the average level of unemployment rose over time from about one per cent in the 1960s to about three per cent in the 1990s. In contrast to those patterns, while the decrease in the decade-long average rate of growth in the EU was only slightly greater than that experienced in the U.S., and far less than the precipitous decrease that occurred in Japan, the average level of unemployment in the fifteen states that now constitute the EU rose far more dramatically than in either the U.S. or Japan, from slightly more than two per cent in the 1960s to four per cent in the 1970s, nine per cent in the 1980s, and more than ten per cent in the 1990s. Compared with the other major developed economies of the world, then, while all of them shared a long-term deceleration in the rate of growth, Europe has become, to a far greater extent than either the United States or Japan, a region of high unemployment. However universal the forces contributing to higher rates of unemployment in the developed economies, their impact clearly has been especially severe in Europe.[6]

The sustained recovery in much of Europe in the mid-to-late 1990s, and the steady, albeit gradual, decline over several years in the rate of unemployment, led many observers to believe that, with sufficient time, the number of unemployed in Europe would return to more tolerable levels. However, that optimistic scenario was called into question as the global financial crisis that began in Southeast Asia in mid-1997 spread to Japan, Korea, and the rest of Asia in late 1997, then, in the summer of 1998, to Russia and Ukraine, and then, in early 1999, to Brazil and other Latin American economies. As the looming global financial crisis cast its shadow over the European recovery and threatened the well-being of some European financial institutions and the prospects for European exports, the possibility arose that the crisis would bring an abrupt end to the recovery and cause a reversal in the gradual downward trajectory in the rate of unemployment in the EU.

The possibility that the evolving global financial crisis of 1997-99 would cut short the European recovery was averted, of course, thanks to the recovery in East Asia that took hold in the first half of 1999, the European Central Bank's coordinated reduction in national interest rates in December, 1998 and its subsequent reduction, in April, 1999, of its benchmark refinancing rate by 50 basis points, and the pick-up in European manufacturing and exports that was fueled by the unexpected drop in the value of the euro vis-à-vis the dollar in the first half of 1999.[7] By the second quarter of 1999, most of the European economies had resumed their recovery, and could look forward to continued recovery, and some further diminution in the rate of unemployment, in the second half of 1999 and into 2000.

Despite the 1999 recovery, however, the rate of unemployment in the eleven member states constituting the euro-zone remained above 10 per cent, and the ECB predicted that it would remain above that level at the end of 2000.[8] Some of the member states, it is true, *did* experience significant reductions in unemployment in 1999. In Spain, for example, the rate of unemployment continued to drop steadily, as it had in 1997 and 1998, and in the second quarter of 1999 had fallen to 15.6 per cent, almost four full percentage points below the rate registered a year earlier and more than eight percentage points below the rate registered in 1994 at the peak of the 1990s recession.[9] But others--most notably, Germany and Italy--experienced high rates of unemployment that gave little evidence of any significant drop in the foreseeable future. Indeed, in Germany, despite a marked pick-up in business confidence, manufacturing orders, and exports in the first half of 1999, the number of unemployed, seasonally adjusted, *increased* in six consecutive months after February and by August totaled some 4,121,000, 10.5 per cent of the labor force.[10] Likewise, in Italy, which continued to experience the lowest rate of growth in the EU--about 1.3 per cent in 1999--the rate of unemployment remained mired above 12 per cent.[11]

This paper examines the enduring problem of high unemployment in Europe. In the first section, I describe the magnitude and distribution of unemployment in Europe in some detail. If it is true that Europe, as a whole, has become a region of enduring high unemployment, it is also true that the levels of unemployment vary widely across the member states and, within the member states, across both time and space. Some of the more important bases of variation are noted--in particular, the differences that exist among the member states of the EU in aggregate levels of unemployment, employment, and job creation, as well as the differences that exist among regions within the member states and across Europe and the differences that exist on the basis of age and gender.

In the second section of the paper, I consider why, notwithstanding the general upward trend in unemployment throughout Europe in recent decades, some of the member states of the EU have been more successful than others in creating large numbers of new jobs and in resisting the upward trend--and, indeed, in a few instances, have even been able to *reduce* the rate of unemployment over the long term. That discussion identifies some of the economic, political, and institutional factors that, taken together, appear to have enabled some of the member states of the EU to resist more successfully than others the long upward trend in unemployment.

The paper concludes with a brief consideration of how the historic advent of the third and final stage of Economic and Monetary Union, marked as it is by the assumption by the European Central Bank of sole responsibility for determining monetary policy in the participating member states, is likely to affect employment and unemployment in the Union. The advent of the third and final stage of EMU, and the participation of eleven (and, in all likelihood, eventually all fifteen) member states,[12] undoubtedly represents the most significant institutional innovation to have taken place in Europe over the past four decades, and it has transformed the institutional context within which economic policymaking in the Union takes place. Obviously, it is much too soon to know whether, and if so how, this dramatic and historic transformation will affect the performance of the economies of the participating member states. Nevertheless, it is not too soon to ask whether participation in the third stage of EMU will enable member states to alleviate the high levels of unemployment they now experience or, on the other hand, will impede any such efforts in that regard and perhaps contribute to even *higher* levels of unemployment throughout the EU.

Unemployment in Europe: The Contours of the Problem

In the early 1990s, most of the member states of the EU experienced a slowdown in the rate of economic growth and, in some instances, outright recession. As a result, the aggregate level of unemployment in the EU rose over the course of several years, as it had in the wake of the synchronized recessions of the mid-1970s and early-1980s. Thus, whereas the aggregate level of unemployment in the fifteen countries that are now members was 8.2 per cent in 1991, by 1994 it had risen to a level of 11.1 per cent.[13] After reaching a peak in the early 1990s, the levels of unemployment edged downward in the wake of improving rates of growth in the mid- and late-1990s. But they did so very slowly and unemployment remained in double digits. Thus, as noted earlier, the aggregate level of unemployment in the EU as a whole and in the eleven states participating in EMU remained in the vicinity of 10 per cent in 1999 and was expected to remain in that vicinity in 2000.[14]

Unemployment Across Time in the EU and elsewhere

Figure 1 presents the rates of unemployment in the European Union, the United States, and Japan over the period 1975-97. These data illustrate the extent to which and the point at which the EU became a region of high unemployment relative to the other major developed economies. Prior to the late 1970s, Europe was, in the aggregate, a region of relatively low unemployment, especially when compared with the U.S. But in the wake of the oil price shocks of the 1970s, the rate of unemployment in Europe rose dramatically and reached double digits by the mid-1980s, while the rate of unemployment in the U.S. peaked in the early 1980s and thereafter moved downward over the long term. During the late 1980s, unemployment in the fifteen current members of the EU exceeded the level in the

U.S. by roughly three percentage points. After increasing in both the EU and the U.S. in the early 1990s, unemployment in the U.S. soon resumed its downward path in the wake of the prolonged economic expansion of the mid-to-late 1990s. But in the EU, the rate of unemployment remained very close to the peak experienced in the 1992-94 period. As a result, in the mid-to-late 1990s, the gap between the American and European rates of unemployment grew to more than six percentage points.

Figure 2 presents the unemployment rate in the Union over the period since 1970 along with the annual change in total employment. Not surprisingly, the two are related; the long-term upward drift in unemployment appears to have been driven by the three major recessions of the last three decades--those of the mid-1970s, the early 1980s, and the early 1990s. Especially during the latter two, when total employment dropped in both instances for three consecutive years (in 1981-83 and in 1992-94), the result was an increase of several percentage points in the aggregate EU-wide rate of unemployment, from less than 6 per cent to about 10 per cent in the first half of the 1980s and from less than 8 per cent to about 11 per cent in the first half of the 1990s.

The upward trend over the long term in the aggregate level of unemployment in the EU portrayed in Figures 1 and 2 is intriguing for several reasons. For one thing, the upward drift in unemployment over several decades and the fact that the aggregate rate of unemployment is higher *after* each major recession than it was *prior* to each recession calls into question whether there is in fact a particular "natural", or equilibrium, rate of unemployment in Europe. It lends credence, instead, to those such as Blanchard and Summers (1986), who dispute the notion of a "natural", unchanging equilibrium rate and find evidence of *hysteresis*--the possibility that the equilibrium level of unemployment is itself changing over time, in part because of prior levels of unemployment. Second, and related to this, is the suggestion in the upward trend in unemployment that cyclical and structural unemployment are not easily disaggregated and that waves of *cyclical* unemployment such as occur in major synchronized recessions result in higher levels of *structural* unemployment after the recessions, thereby in effect raising the "natural" or equilibrium level. Obviously, the more frequent and closely spaced the major synchronized recessions, the more likely it will be that the level of structural unemployment will increase over time, whereas the less frequent the major synchronized recessions, the more likely it will be that the level of structural unemployment will *de*crease over time.

There is a third implication to be drawn from the upward drift of aggregate unemployment in the EU since the early 1970s and the fact that the major increases occurred in the recessions of the mid-1970s, early-1980s, and early-1990s. Each of those major recessions derived from processes and changes in the international economic and geopolitical environments, processes and changes that were largely exogenous to the EU--that is, largely external to the EU and, for that reason, largely uncontrollable by the member states.[15] For example, the major recession of the mid-1970s followed, and was to a large extent triggered by, the American inflation of the late 1960s and the breakdown of the Bretton Woods exchange rate regime, the Yom Kippur War, and OPEC's four-fold increase in oil prices. Likewise, the major synchronized recessions of the early 1980s were, in large part, triggered by the effects on oil production and prices of the Iranian Revolution and the Iran-Iraq War. And the major synchronized recessions in Europe in the early 1990s were, in large part, triggered by the upward pressure on European interest rates that followed in the wake of the increases in German interest rates--German rates by the late 1980s and early 1990s setting the *de facto* floor for European rates within the European Monetary System--which occurred in the wake of unification-driven increases in transfer payments, government spending, budget deficits, and the money supply. To some extent, of course, that increase in rates was endogenous. On the other hand, to the extent they can be viewed as responses to unification, the German fiscal and monetary policies of the early 1990s can be viewed as resulting ultimately from the same factors that gave rise to unification--that is, the upheavals, transformations, and revolutions of 1989 that were, to a large extent, triggered by the European and domestic political policy of the Soviet leadership in the late 1980s and the decisions of the Hungarian and Polish Communist leaderships--in the former case, to open the border with Austria and to let East Germans leave without visas, in the latter case, to negotiate with and then bring into government representatives of the Solidarity movement--in the summer of 1989.

While the two most recent synchronized recessions in Europe were, like the first in the mid-1970s, largely the product of exogenous forces, we should note that their adverse effects on employment were amplified by EU policy--in particular, by the impact of recent initiatives in the domain of monetary and exchange rate policy. In the early 1980s, soon after the creation of the European Monetary System, the norms that governed German macroeconomic policy--the importance of price stability and the willingness to deploy a tight monetary policy and an austere fiscal policy to achieve that objective--were internalized first in the socialist governments of France and Spain and subsequently was generalized to the rest of the EC, and as they were the rate of unemployment in both countries, and in the EC as a whole, increased sharply.[16] Likewise, the combined effects of the EMS crisis of 1992-93, which, in the absence of a revaluation of the German Mark and a broad realignment of all of the exchange rates, resulted in several upward shifts of interest rates, and the commitment in the Treaty on European Union to moving to the third and final stage of Economic and Monetary Union by 1999 at the latest, which required member states wishing to qualify for EMU to pursue price stabilization and the reduction of budget deficits, contributed to the further erosion of employment in the early 1990s.[17]

The association between major exogenous shocks, synchronized recessions within Europe, and the sharp upsurges in unemployment across Europe that accompanied those recessions suggests that the member states of the EU, both individually and collectively, may have only limited control over the aggregate level of unemployment in Europe. If one views the major upward impulses in the "natural", "equilibrium", or "structural" level of unemployment in Europe in recent decades as having derived from exogenous international economic and geopolitical shocks, then whether the EU will experience a diminution or worsening of unemployment in the foreseeable future may depend ultimately not so much on what the EU member states do themselves but, rather, whether they are subjected to such employment-destroying exogenous shocks in the future and the extent to which they are able to cushion themselves from such shocks.

Job Creation in the EU and Elsewhere

The data in Figure 2 suggest that the aggregate level of unemployment at any moment in time can be viewed as the cumulative product of the year-to-year changes in employment and that changes in the aggregate rate of unemployment from year to year are the product of unusually large increases or decreases in the annual rate of change in employment. Put differently, a high rate of increase in employment, if sufficiently high and if sustained for a sufficient time, will lower the rate of unemployment while an unusually low rate of increase, or a decrease, in employment, if sustained over some period of time, will raise the rate of unemployment.

Table 2 presents decade-long averages since 1960 of the average annual change in the number of persons employed in the EU, the United States, and Japan. These data suggest a marked difference between the U.S., on one hand, and the EU, on the other, in the extent to which new jobs have been created over the past four decades. Thus, year-in and year-out over the past four decades, the total number of employed in the fifteen EU member states increased by a very modest amount--on average, between 0.3 and 0.5 per cent a year in the 1960s, 1970s, and 1980s, and not at all in the 1990s. By way of contrast, the total number employed increased in the U.S. by roughly 2 per cent a year between 1960 to 1990 and by 1.5 per cent a year in the 1990s. To a large extent, the movement in opposite directions that one observes in Figure 1 in the rates of unemployment in the EU and the U.S. since the early 1980s is a result of the different rates of job creation in the EU and the U.S. over the past two decades.

Figures 3 and 4 illustrate the cumulative effect of the marked differences in the rates of job creation in the EU, the U.S., and Japan in recent decades. Figure 3 arrays the number of persons employed over the past three decades. Since 1970, the American economy has added roughly *50* million new jobs, net of losses, to the 80 million that already existed, an increase of more than 60 per cent. The Japanese economy added roughly 15 million new jobs, net of losses, to the 50 million that existed in 1970, an increase of 30 per cent. The EU, on the other hand, added barely 10 million new jobs, net of losses, to the 140 million that existed in 1970, an increase of only *7* per cent over the three decades!

As a result of their higher rates of job creation over the past three decades, both the United States and Japan achieved substantial increases in the proportions of the working-age population that was employed, whereas in the EU the proportion actually *de*creased. Thus, Figure 4 indicates that between 1975 and 1997 the employment rate in Japan increased from about 69 per cent to about 75 per cent. In the U.S., the increase was even greater, from about 62 per cent to nearly 75 per cent. But in the EU, the employment rate *de*creased, from about 64 per cent in the mid-1970s to 60 per cent in the mid-1980s, where, with the exception of a transitory improvement in the late 1980s and early 1990s, it has remained ever since. Clearly, the high rate of unemployment is only one facet of the employment problem in Europe. Another equally important aspect of the problem is its failure, relative to the U.S. and Japan, to create large numbers of new jobs and, in so doing, increase the *employment* rate of its working age population.

Variations in Unemployment and Employment Within the EU

Table 3 presents the levels of unemployment in the fifteen current member states of the European Union over the period 1961-98. These data, which are the standardized measures of unemployment reported by Eurostat and the OECD, illustrate the sharp increase in unemployment that occurred in most of the member states--indeed, all but Greece, Luxembourg, Austria, and Sweden--in the decade after the first OPEC oil shock, as well as the continued erosion of employment that occurred in almost all of the current member states in the 1980s and 1990s. The data indicate that the levels of unemployment dropped in most of the member states in the late 1990s. But those decreases have been, for the most part, very modest, and as a result the levels of unemployment in most countries remain, despite the economic recovery in the mid-to-late 1990s, close to the historic peaks registered in the early 1990s. Indeed, in several countries--Belgium, Germany, Greece, France, Italy, Austria, and Sweden--the levels of unemployment recorded in 1997 and 1998 exceeded the average for 1991-96. That the rate of unemployment remained, in the late 1990s, at or close to peak levels for the decade testifies to the extent to which the capacity to generate employment has deteriorated in Europe over the long term.

There are, of course, some significant exceptions to the tendency for unemployment in the EU in the late 1990s to have remained at or close to the decade-long peaks. In several member states--most notably, Denmark, Spain, Ireland, the Netherlands, Portugal, and the U.K.--the level of unemployment by 1999 was not only significantly lower than the average level registered in the first half of the 1990s but lower than the level registered in the late 1980s as well. Indeed, the levels of unemployment in Denmark, Ireland, the Netherlands, Portugal, and the U.K. in 1998-99 were not only lower than the levels registered in the late 1980s and early 1990s but also lower than the levels registered in *1974-85* as well! Barring substantial reversals that could, of course, occur in the wake of future economic downturns, it would appear that, although situated in a regional context marked by low growth and deteriorating employment, those countries--above all, Ireland and the Netherlands--were able to create enough new jobs over a period of years to lower the long-term, non-cyclical, or structural, "natural" level of unemployment.

Figure 5 presents the levels of unemployment in the EU as a whole and in selected member states over the period since 1970. These data illustrate the long gradual upward trend in unemployment in the EU as a whole and in such member states as Germany, France, and Italy. The lower panel of Figure 5, however, arrays the data on unemployment for four of the member states--Ireland, Denmark, the Netherlands, and the U.K.--that reduced unemployment to such an extent in the mid-to-late 1990s that the rate had dropped below the rate recorded in the late 1970s and 1980s. Especially notable is the drop of some seven to eight percentage points in Ireland that occurred after unemployment peaked in the vicinity of 17-18 per cent in the mid-1980s and then rose above 15 per cent in the early 1990s. But the others--especially Denmark and the Netherlands--experienced significant decreases in the 1990s as well.

As intriguing as the Danish, Dutch, Irish, Portuguese, and British experiences are--and we shall return later to consider some of the reasons for their relative success in lowering the level of unemployment--they unfortunately represent the exception rather than the rule. In most of the member states of the EU, and most of the members of the euro-zone, the current level of unemployment is still at or above the levels registered in the 1980s and 1990s. Thus, the EU as a whole, and the euro-zone in particular, remain areas marked by relatively high levels of unemployment--levels that equal or exceed those registered in 1980s and 1990s and that remain quite close to the peak levels registered in the 1990s.

If there are substantial differences among the member states of the EU in levels of unemployment, there are also substantial variations in the level of unemployment *within* many of the member states. Figure 6 presents the unemployment rates in 1997 for the various regions of the member states of the EU. We note that virtually all of the member states exhibit considerable internal variation in the level of unemployment (which, among other things, should caution one against drawing conclusions about unemployment based solely on national-level averages). In a few of the smaller states--most notably, Austria, Denmark, and the Netherlands (and Luxembourg, of course)--all of the regions appeared to enjoy rates of unemployment that are relatively low, as did substantial portions of northern and northeastern Italy, southern and southwestern Germany, southeastern England, and northern Portugal. But in other regions--most notably, southern Spain, where the rates of unemployment exceeded 35 per cent, southern Italy and eastern Germany, in both of which unemployment averaged about 20 per cent, as well as northern Sweden, central and northern Finland, southern France, northern France, and parts of Wallonia--the unemployment rates were unusually high. The existence of these geographic concentrations of unusually high levels of unemployment, alongside concentrations of *low* unemployment, suggest that unemployment in Europe depends, to a considerable degree, upon processes of economic development and underdevelopment that are regionally concentrated--processes such as the expansion of the service sector (as in the London region, the Paris region, the Milan region, etc.), on the one hand, and, on the other, deindustrialization (as in eastern Germany, southern Belgium, and northern France) or contraction of the primary sector (as in southern Spain, southern Italy, northern Sweden, and northern and central Finland).

Turning from the variation across time and space in levels of unemployment to the variations that exist in rates of *employment,* Table 4 presents data on the average annual increase in total employment in the member states of the EU decade by decade since 1960. These data highlight the substantial differences that exist among the member states in the average annual rate of job creation (net of job losses)--differences that are masked by the overall EU-wide rates of change. Thus, for example, we note that while the aggregate annual rate of net job creation in the

EU in the 1990s was zero--indicating that, on average, as many jobs were lost as were created each year of the decade throughout the EU--and while certain member states--Finland and Sweden, which experienced unusually severe recessions in the early 1990s, Germany in the wake of unification, and Italy--experienced significant contractions in employment, several member states experienced significant *increases* in employment that ran counter to the EU-wide trend. Most notably, Luxembourg and Ireland experienced average annual increases in employment in the 1990s that were altogether exceptional--not only in the sense of being considerably larger than any previous decade-long average recorded by an EU member state, but also in being nearly *twice* as large as the rate recorded in the United States, the presumed leader and exemplar of job creation! The Netherlands, and to a lesser degree Spain, also experienced relatively high levels of aggregate job creation in the 1990s--in the Dutch case, at a rate that was roughly comparable to the rate recorded in the U.S.

The sustained job creation that occurred in the 1990s in Ireland, Luxembourg, the Netherlands, and several other member states stands in marked contrast not only to the sharp contractions that occurred in Finland, Sweden, Germany, and Italy but, also, to the relative stagnation in job creation experienced by Belgium, France, and Britain. Table 5 provides a comparison of the cumulative effect of those differences in annual rates of job creation during the late 1980s and 1990s. The data in Table 5 indicate that whereas the total number of persons employed in the EU increased by 7.7 per cent between 1985 and 1991, the number *de*creased by some 1.7 per cent between 1991 and 1997. As the data in the previous table demonstrated, the data in Table 5 make it clear that the aggregate pattern in the EU, taken as a whole, masks significant differences among the member states. Thus, for example, while the total number of employed persons dropped by roughly 8 per cent in Finland and 11 per cent in Sweden, and by 5-7 per cent in Germany and Italy in 1991-97, the number of employed persons increased substantially in Ireland, Luxembourg, the Netherlands (and Greece). Indeed, the cumulative increases in Ireland (21.1 per cent) and Luxembourg (16.4 per cent) not only far exceeded those recorded in the other member states but greatly exceeded, as well, the increase recorded over that period in the U.S. (7.3 per cent). And taken with the increases experienced in the late 1980s, those increases contributed to an overall increase in the number employed from 1985 through 1997 of 42 per cent in Luxembourg, 29 per cent in Ireland, and 25 per cent in the Netherlands. By way of contrast, the total number employed in France in 1997 was only 3 per cent greater than the number employed in 1985. In Italy, the number employed in 1997 was actually slightly *smaller* than the number employed in 1985. And in Finland and Sweden, the number of employed persons was 8-12 per cent below the number employed in 1985.

Table 6 presents data on the proportion of the working-age population--that is, persons aged 15 to 64--employed in the fifteen members states of the EU in 1985, 1991, and 1997. These data reveal that, as noted earlier in regard to Figure 4, approximately 60 per cent of the working age population in the EU was employed in the period from the mid-1980s to mid-1990s. Indeed, over the three decades from 1970 to the late 1990s, the employment rate hovered around 60 per cent, in marked contrast to the employment rates in the United States and Japan which rose from about 62 per cent to 74 per cent in the case of the U.S. and from 69 per cent to 75 per cent in the case of Japan. Some of the countries--most notably, Denmark, Austria, Finland, Sweden, and the U.K.--had markedly higher employment ratios during much of the period, although the severe recessions of the 1990s in Finland and Sweden resulted in very substantial decreases that brought them closer to the EU norm. Others, however--most notably, Italy, Spain, and Greece (but not Portugal)--had relatively low employment ratios and remained below the EU average throughout the 1980s and 1990s.

What is most interesting, perhaps, about the data presented in Table 6 is the fact that several of the member states experienced significant increases in their rate of employment between the mid-1980s and late-1990s. In particular, Belgium, Spain, Ireland, the Netherlands, Portugal, and Britain experienced increases of four percentage points or more, in marked contrast to the *de*creases that occurred in Germany, Greece, France, Italy, Finland, and Sweden.
Several of the countries--Belgium, Spain, and Italy--experienced significant increases from an initial rate that was well below the EU average in 1985. But several others--the Netherlands, Portugal, and Britain--experienced significant increases despite the fact that each was already close to or above the EU average in 1985. In the former case, the increases caused the countries to become more like their EU partners in regard to employment; in the latter case, the increases caused the countries to become more like their Scandinavian (and Austrian) partners, and more like the U.S. and Japan in regard to employment.

Gender, Age, and Unemployment

Turning back from employment to levels of unemployment, Table 7 presents the rates of unemployment in the EU, the U.S., and Japan in 1998, disaggregated by gender and age. Notwithstanding conventional stereotypes, there appears to be a much more marked gender division in unemployment in the European Union than in either the U.S. or Japan. Thus, the rate of unemployment among women in the EU was roughly three percentage points, or 33 per cent, higher than that of men, whereas in the U.S. and Japan the rates were nearly identical for men and women.[18]

Table 7 also presents the rates of unemployment in 1998 of those in the active labor force who were under the age of 25. In general, the levels of unemployment of persons under the age of 25 are twice those of the labor force as a whole in the EU, a little more than twice as large in the U.S. and a little less than twice as high in Japan. Thus, in the EU, roughly 20 per cent of those in the labor force who were under the age of 25 were unemployed. And as with the labor force as a whole--and, interestingly, again unlike the situation in the U.S. and Japan, especially that of the U.S. where the rate of unemployment of young women was *lower* than that of young men--the rate of unemployment of young European women exceeds that of young men by several percentage points. Thus, whereas 18.2 per cent of the men under the age of 25 who were in the labor force in the EU member states were unemployed (compared to 8.6 per cent of all men), 21 per cent of the women under the age of 25 who were in the labor force (compared to 11.8 per cent of all women) were unemployed.

Table 8 presents the rates of unemployment in the member states of the EU in 1998, disaggregated by gender and age. What is perhaps most noteworthy, and indeed sobering, is the high rate of unemployment of the young and, in particular, of young women. In some countries, more than *30* per cent of those under the age of 25 who are in the labor force are unemployed, and in some countries, more than *40* per cent of the women under 25 who are in the labor force are unemployed. Notwithstanding the (relative) success of a few member states such as Denmark, Germany, Luxembourg, the Netherlands, and Austria in keeping the unemployment rate for the young in single digits and close to the overall rate, in most of the EU those under the age of 25--especially young women--confront, to a much greater degree than do their peers in the U.S. and Japan, the prospect and reality of unemployment. Thus, for example, in Spain, more than 35 per cent of all young persons, and more than *46* per cent of all young women, in the active labor force were unemployed in 1998. In Greece and Italy the figures were comparable: In Greece, 32 per cent of all young persons and 42 per cent of all young women in the labor force were unemployed; in Italy, 32 per cent of all young persons and 36 per cent of all young women in the labor force were unemployed. (Interestingly, Portugal deviates markedly from this "southern" pattern, with rates of unemployment of young adults and young women that were closer to those found in the central and northern member states). In France, Belgium, and Finland, the rates of unemployment among young persons were somewhat lower but still very high: Thus, in France, more than 26 per cent of all young persons in the labor force and 29 per cent of young women in the labor force were unemployed; in Belgium, more than 22 per cent of all young persons and 25 per cent of young women were unemployed; and in Finland, about 24 per cent of all young persons and young women were unemployed.

One possible explanation for the unusually high levels of unemployment in some of the member states of the EU, and for the unusually high levels of unemployment among the young, and among young women in particular, might be the difference in participation rates in the labor force. Perhaps, it might be argued, those member states with unusually high rates of unemployment have those high rates because they have unusually high rates of participation in the labor force, compared with those member states in which the overall rate of unemployment and the rates of unemployment of young members of the labor force are relatively low.

The data in Table 9 indicate that this explanation, although plausible, is, at best, correct only for two of the six countries with unusually high levels of unemployment. If we consider the member states which had rates of unemployment in excess of 10 per cent in 1998--Greece, Spain, France, Italy, and Finland--and those which had unusually high rates of unemployment for young adults and young women--those five plus Belgium, all of which had rates of unemployment in excess of 20 per cent among young adults and young women--it appears that only Finland and France had higher overall rates of participation in the labor force than their EU partners and markedly higher rates of participation by women. Belgium, Spain, and Italy all had rates of participation significantly below those of the EU, as did Greece for women and for its adult population. In those countries, then, not only is it the case that an unusually large portion of women in the labor force is unemployed but that the rate of participation by women in the labor force is unusually low.

Long-Term Unemployment

If unemployment varies across time, space, gender, and age, it also varies in duration, and, indeed, one of the most problematic aspects of European unemployment is the fact that a very significant portion of the unemployed have been unemployed for a long period of time and are, presumably, less likely to become employed in the future.[19] Table 10 presents the proportion of all those unemployed in 1997 in each of the member states who were unemployed for more than one year. One observes that approximately one-half of all of the unemployed in the EU were, at any given time, persons who had been unemployed for more than a year. (By way of comparison, in the U.S. roughly 10 per cent of the unemployed are typically unemployed for more than a year). As with unemployment in general, the experience of long-term unemployment was more frequent among women than men. And as with the other facets of employment and unemployment, there are marked variations within the EU. Thus, several of the fifteen member states--Denmark, Austria, Finland, Sweden (albeit the latter to a much lesser extent in recent years), and Britain (in regard to women)--appear to have been markedly more successful than the others in reducing the number of persons unemployed for more than a year relative to the total number of persons unemployed. None of those states, however, approaches the American pattern in which the long-term unemployed constitute roughly ten per cent of all of the unemployed. Among the other, less successful EU member states, in Germany, Greece, Spain, Ireland, and Portugal the proportion of the unemployed who had been unemployed for more than one year exceeded 50 per cent, and in Belgium and Italy the proportion *exceeded* 60 per cent! In all of those except Ireland, but especially in Greece and Spain, the proportions of unemployed women who were unemployed for more than one year exceeded the proportions of unemployed men.

Part-Time and Temporary Employment

One possible explanation for the considerable variation across the member states of the EU both in the extent of unemployment and the duration of unemployment may involve the existence of opportunities in some countries but not others for persons to work in part-time or fixed-term jobs. Table 11 presents data on the proportion of those who were employed in 1997 who were working on a part-time basis or on fixed-term contracts. What is especially noticeable, of course, is that women have much higher rates of part-time employment than men. In the EU as a whole, and in such member states as Belgium, Denmark, Germany, France, the Netherlands, Sweden, and the U.K., more than 30 per cent of all working women work in part-time jobs. In Sweden and the U.K. the figure exceeds 40 per cent. And in the Netherlands the figure approaches *70* per cent! In contrast, in several of the member states with unusually high rates of overall unemployment and unemployment of young persons and young women in particular--Greece, Spain, and Italy--as well as in several other member states--Luxembourg, Portugal, and Finland--the rates of part-time employment are well below the average for the EU.

The data on part-time employment also suggest that in certain member states--most notably, the Netherlands, Denmark, Sweden, the U.K., and Finland, all of which have either unusually low levels of unemployment (the Netherlands, Denmark, the U.K.) or unusually low rates of long-term unemployment (Denmark, Sweden, Finland)--a relatively large number of men work on a part-time basis. While the relationships are by no means overwhelming, it would appear that the existence of opportunities for part-time employment may help to explain why some member states have lower levels of unemployment among women, lower levels of overall unemployment, and lower rates of long-term unemployment.[20]

The Economic, Political, and Institutional Sources of Employment

Over the last quarter-century, the European Union as a whole experienced a dramatic upward trend in its rate of unemployment. As the EU enters the twenty-first century, it does so with a stubbornly enduring high overall level of unemployment and very high rates of unemployment among certain segments of its population and regions of its member states. However, not all of the member states have experienced the general trend toward higher levels of unemployment. Indeed, some have not only managed to dampen the rise of unemployment but to create sufficient numbers of new jobs to *lower* the rate of unemployment over the long term. Why is that the case? In this section, we shall consider some of the economic, political, and institutional features that have enabled some of the European states to resist better than others the long, secular upward trend in unemployment and, indeed, in some instances to achieve a substantial reduction in unemployment over the long term.

Table 12 presents several measures of the performance of the EU member states in regard to employment and unemployment in the 1990s. By comparing their performances in regard to the level of unemployment, changes in the level of unemployment, the extent of unemployment among young adults, the extent of long-term unemployment, the creation of jobs, the extent of employment, and the change in employment over the past decade, one can assess to what extent and in what aspects of employment each member state has followed or diverged from the general trend in the EU of rising unemployment and contracting employment.

The data in the first column of Table 12 reiterate the fact that, while the overall rate of unemployment in the EU in the late 1990s was in the vicinity of 10 per cent, certain member states--most notably, Luxembourg (2.8 per cent in 1998), the Netherlands (4.0), Austria (4.7), Portugal (4.9), Denmark (5.1), the U.K. (6.3), and Ireland (7.8)--enjoyed significantly lower rates. Intriguingly, with the obvious exception of the U.K., all of these are small "open"--i.e., trade-dependent--economies, which suggests that openness may be associated with certain structural attributes and/or behavioral predispositions on the part of economic and political actors that are conducive to maintaining high levels of employment.[21]

The data in the second column of Table 12 suggest that, while the rate of unemployment in the EU as a whole did not change at all between the early 1990s and 1998, and moved upward in several countries, some of the member states--again, Denmark, Ireland, the Netherlands, Portugal, and the U.K., as well as Spain and Finland--experienced significant decreases in unemployment between the first half and the last years of the 1990s. Even more intriguing is the suggestion in the third column of Table 12 that, while the EU-wide level of unemployment rose by more than three percentage points between 1974-85 and the late 1990s, the level of unemployment in 1998 was significantly *lower* in some of the member states than it had been in the late 1970s and early 1980s. Thus, in the Netherlands, the rate of unemployment was 3.1 percentage points lower in 1998. In Ireland, it was 2.8 percentage points lower. And in Portugal, Denmark, and the U.K. it was lower, by 2.0, 1.3, and 0.6 percentage points, respectively. Contrary to the long upward drift in unemployment throughout most of the EU, and the EU as a whole, those member states appear to have managed to reduce their long-term, structural, or "natural" rates of unemployment.

The identity of group of states that by the late 1990s had managed to reduce the rate of unemployment below the levels recorded in the late 1970s and early 1980s suggests that political factors may have played a role in that achievement. Whether the relationship is causal or coincidental remains to be determined, but there does nevertheless appear to be a systematic association between the political experience of member states--specifically in regard to the partisan composition of their governments--and their ability to effect significant reductions in the rate of unemployment over the long term. In particular, it appears that most if not all of the states effecting significant reductions over the long term shared a common political attribute-- control of government for prolonged periods by conservative and center-right parties and/or coalitions that were then followed by governments formed by progressive, Social Democratic, and center-left parties. This is not to say, of course, that the Thatcher governments in Britain, or those headed by Lubbers in the Netherlands, or Schlüter in Denmark, or Cavaco Silva in Portugal, sought to reduce the rate of unemployment. Indeed, in all of those cases, the rate of unemployment rose dramatically. But what the perplexing, and disconcerting, relationship does suggest is that it was perhaps the reality of high unemployment, and threat of still higher levels of unemployment, at a time when government was controlled by parties not sympathetic to labor, as well as changes in labor market regulations and institutions effected by those governments, that caused economic actors to give greater priority to the retention of existing jobs and creation of new jobs. And it suggests that it was only some time later, after the conservative parties had been removed from office and replaced by parties and coalitions of the center-left, that the changes in institutions and behavior that began in the era of high unemployment and conservative government could result in reductions in the rate of unemployment that were of sufficient magnitude as to cause it to drop below those experienced in the recent past.

Table 12 also reiterates the fact that, unlike most of the member states, certain countries--most notably, Austria, Luxembourg, Denmark, the Netherlands, Portugal, and Germany--have been able to keep the level of unemployment among young persons in single digits. And we note, also, that a few countries--most notably, Denmark, Austria, and Finland--were able to keep the proportion of the unemployed who were unemployed for more than one year at unusually low levels, relative to the levels found elsewhere throughout most of the EU.

The data in Table 12 pertaining to employment tell much the same story. Certain member states--most notably, Ireland, Luxembourg, and the Netherlands, but several others as well--experienced markedly higher cumulative increases in the total number of persons employed between 1991 and 1997. In Ireland, for example, the total number employed increased by 21 per cent between 1991 and 1997 and contributed to an increase of some six percentage points in the employment rate. And in the Netherlands, the total number employed increased by more than nine per cent between 1991 and 1997 and contributed to an increase of some nine percentage points in the employment rate between 1985 and 1997. Britain, Austria, the Netherlands, and Portugal experienced significant increases in the rate of employment between 1985 and 1997 (as did Belgium, Spain, and Ireland) and, partly as a result, enjoyed rates of employment that were significantly higher than those existing in most of the EU in the late 1990s.

Taken together, the various measures reported in Table 12 suggest that some of the member states of the EU--in particular, Ireland, the Netherlands, Denmark, Portugal, and Britain, but to some extent Austria and Luxembourg as well--were able to counter the long-term trends contributing to higher levels of unemployment, fewer persons employed, and smaller shares of the working-age population employed in the EU. Why did the citizens of those states enjoy lower rates of unemployment and higher rates of job creation and employment than the citizens of other EU member states?

The prominent place of Ireland in the summary statistics presented in Table 12 immediately calls to mind one possible--indeed, obvious--reason why some member states have been more successful than others in protecting and expanding the ranks of the employed. Over the past decade, Ireland experienced truly exceptional rates of economic growth--roughly seven per cent a year throughout the 1990s, and in excess of *10* per cent a year, on average, in 1995-99.[22]

What is true for Ireland regarding the close association between growth and employment is true more generally in the EU. Figure 7 illustrates the near-perfect association between the annual change in employment and the rate of economic growth in the EU, lagged two quarters, over the period 1975-97.[23] Likewise, when one compares rates of growth and levels of employment and unemployment across the member states, one finds a strong statistical relationship. For example, there is a correlation across the fifteen member states of r = .80 between the rate of economic growth in 1995-99 and the average annual per cent change in the number employed in 1995-99, indicating that the member states with the highest rates of growth experienced the highest average increases in employment. Similarly, we observe a correlation of r = -.68 between the rate of growth in 1995-99 and the increase in unemployment between 1991-96 and 1998-99, indicating that the member states with the highest rates of growth experienced the greatest decreases in unemployment in the 1990s. And finally, we find a strong inverse association, r = -.81, between the magnitude of the average annual increase in employment in 1995-99 and the increase in the rate of unemployment between 1991-96 and 1998-99, indicating that large increases in the number employed are associated with large decreases in unemployment.

That growth is closely associated with employment and unemployment is, of course, a macroeconomic truism. If one wishes to explain why one country experiences a deterioration in employment, and an increase in the rate of unemployment, while another experiences an expansion in employment, and a decrease in the rate of unemployment, surely one would start by comparing the rates of economic growth in the two countries. Likewise, from a prescriptive perspective, the close association between growth and employment described in Figure 7 and our cross-national correlations suggests that the surest means of attaining a lower level of unemployment in a country, or in a grouping of countries such as the EU, is to attain and sustain a high rate of economic growth.

The Irish case is, of course, something of an anomaly in the European context. Its truly exceptional levels of growth reflected, no doubt, the lagged effect of equally exceptional levels of investment that ranged between 24 and 30 per cent of GDP from the early 1970s to early 1980s--levels that reflected, in large part, a quite exceptional degree of foreign direct investment as Ireland became a production and export base for firms moving into the European market.[24] With such high rates of investment and growth sustained over a long period, it is hardly surprising that the level of unemployment was dragged down from the range of 16 per cent in 1985-88 and 15 per cent in 1992-93 to the range of 8 per cent or less in 1998 and 1999 and that the number of persons employed, and the employment rate, increased dramatically in the 1990s. Nevertheless, however anomalous it may be, the Irish experience does testify to the very strong impact that sustained high rates of economic growth have on employment.

The Irish case is not the only one in which high rates of unemployment dropped sharply in the wake of sustained high rates of growth. Spain in the mid-to-late 1990s experienced an equally dramatic reduction in the rate of unemployment, from more than 24 per cent in 1994 to less than 16 per cent by mid-1999. Spain, of course, experienced exceptionally high levels of unemployment throughout the 1980s and 1990s--between 1982 and 1999, for example, the rate of unemployment in Spain never dropped below 16 per cent--and was, indeed, so exceptional in that regard that it gave rise to a voluminous literature seeking to account for its unusually high rate of unemployment.[25] While many factors contributed to the sustained reduction in unemployment in Spain in the last half of the 1990s, one of the most important, no doubt, and one that would have to figure prominently in any reassessment of its performance in regard to employment in last half of the 1990s, was a rate of economic growth that, although below that registered in Ireland, was nevertheless sustained at an unusually high (and accelerating) level.[26]

As important as Spain's sustained high rate of growth was in driving down the rate of unemployment in the late 1990s, that reduction was also the result of significant changes in the existing institutions and rules pertaining to the labor market. In 1997, under the aegis of the new conservative government headed by José María Aznar, the employers confederation (CEOE) and the two labor confederations (the CC.OO. and the UGT) agreed to modify some of the rules governing the Spanish labor market.[27] The unions agreed to a significant reduction in the amount of compensation that companies had to pay to permanent workers who were laid off, the employers accepted longer-term (up to four years and renewable) fixed-term work contracts, and both sides agreed to continue negotiating on expanding the use of part-time employment. In return for their acceptance of these changes, the government committed itself to a large-scale jobs program that involved increased spending on a variety of "active" measures such as training, employment, and vocational programs (as opposed to such traditional "passive" measures as income supports for the unemployed). Thus, it committed itself to involving some 725,000 unemployed young persons and adults in training, employment, and vocational guidance programs before they had reached six and twelve months of unemployment, respectively, in 1998, and it made plans to offer up to one million of the 2.7 million unemployed work under new "employability action" programs. As a result, in the first three years after the 1997 accord, more than one million jobs (260,000 in 1997, 440,000 in 1998, and at least 370,000 in 1999) were created in Spain--more new jobs than were created in all of the other member states of the euro-zone put together![28]

The magnitude of the decrease in the rate of unemployment in Spain in the late 1990s was unusual and was, perhaps, rivaled only by the magnitude of the decrease experienced in Ireland. But the institutional means by which that reduction was initiated--national bargaining between employers and labor over issues pertaining to the regulation and flexibility of labor market--was by no means unusual or exceptional. Indeed, as several scholars have noted, the existence of high and rising levels of unemployment in Europe in the 1980s and 1990s caused new patterns of bargaining to appear that, while reminiscent in certain respects of earlier forms of "corporatist" bargaining--for example, in the negotiation of national "frame" agreements-- were more decentralized, gave greater latitude to those bargaining at the level of sectors and firms, and resulted in more widely varying settlements.[29] While the decentralized, flexible, and somewhat ad hoc character of these new bargaining arrangements differentiated them from the older forms of institutionalized national-level bargaining, they did nevertheless retain some features of the older forms of bargaining--for example, in involving government in agreements with the economic partners that enabled them to reach agreements with each other. And in one important respect, the governments remained deeply involved, because, to a greater extent than was the case when the older forms of "corporatism" prevailed in times of near-full employment such as prevailed in the pre-OPEC era, the essential quid-pro-quo's for concessions in wages often involved government policy in support of the creation of jobs--e.g., reductions in the work week or retirement age, regulations pertaining to part-time employment, the creation of public sector jobs as well as training and re-training programs, etc.[30]

That labor market and bargaining institutions have affected the performance of some economies in regard to employment is supported not only by the recent experience of Spain described earlier but by the experiences of several of the states that now enjoy unusually low levels of unemployment. Indeed, *all* of the smaller states that stood out among the EU member states at the end of the 1990s for their relatively low levels of unemployment--Ireland, the Netherlands, Denmark, Luxembourg, Austria, and Portugal--witnessed the appearance of new patterns of collective bargaining--patterns that in some instances drew upon pre-existing "corporatist" traditions but in all cases involved more decentralized and flexible, and less institutionalized, forms--that were centrally concerned with employment and the creation of jobs.

Thus, for example, the relative success of Ireland and the Netherlands in creating large numbers of new jobs at a time when much of Europe was suffering from very high levels of unemployment and an inability to create large numbers of new jobs, reflected in part the impact of new forms and patterns of collective bargaining over wages and work. In addition to being, like Denmark, Portugal, and, of course, Luxembourg, small open economies in which the high degree of trade dependence sensitizes economic actors to the trade-offs between wages and work, both Ireland and the Netherlands have well educated, skilled work forces, as well as job training and re-training programs (the latter in part a legacy of the very high levels of unemployment in both countries in the mid-1980s), all of which may have contributed to their successes with regard to unemployment in the 1990s. But equally important, both have created institutional mechanisms through which wage restraint has been negotiated and maintained, in exchange for a commitment from government to enact a variety of job-creating measures. In both, the major economic actors--labor confederations and employers associations--have, with the informal support of the government, reached agreements that are, in certain respects, reminiscent of the earlier corporatist bargains and have resulted in wage moderation in return for job creation.

Perhaps the most famous instance of the renewed, albeit more decentralized and bipartite, quasi-corporatist bargaining over wages and employment between employers and labor has occurred in the Netherlands. Acting in the face of unemployment rates that were already in double digits and were continuing to rise, the Dutch labor confederation (the FNV) agreed at Wassenaar in 1982 and in later negotiations to moderate its demands for wage increases, de-link public and private sector wages, de-index certain social benefits, and introduce stricter criteria for eligibility for disability and other social benefits in return for a commitment from the employers association (the VNO-NCW) to preserve existing jobs and create new ones, accept a shorter work week, institute more flexible work arrangements that would allow substantial part-time and temporary employment, and introduce new employment schemes that would subsidize employment of the unskilled and long-term unemployed (often referred to as "Melkert" jobs after the Social Affairs minister who introduced the schemes).[31] In the absence of investment ratios and FDI of the magnitude enjoyed by the Irish, once must conclude that it was, above all, the sustained wage restraint in the Netherlands from 1982 onward--reflected in unusually small increases in real compensation and unit labor costs--that fueled the exceptional growth in employment in the 1980s and 1990s that brought the country's level of unemployment down to the vicinity of 5 per cent.

Discussion: Unemployment in the Era of EMU

On January 1, 1999, eleven member states of the EU jointly entered the third and final stage of Economic and Monetary Union. As they did so, they presided over economies that, for the most part, suffered from low rates of economic growth and high rates of unemployment. Indeed, in 1999 the rate of unemployment in the euro-zone was in double digits and showed little evidence or likelihood of dropping significantly in the foreseeable future. By its constituting documents, the European Central Bank, which is charged with sole responsibility for monetary policy in the euro-zone, is independent of political instruction and singularly committed to the objective of maintaining stable prices. In addition, in 1997 the governments of the EU agreed to a "Stability and Growth Pact", under the terms of which their ability to use fiscal policy to stimulate the economy was severely curtailed.[32] That being the case, to what extent, if at all, will the eleven participating member states be able to change the pattern of repeated, synchronized recessions, relatively low rates of economic growth, and high rates of unemployment that has afflicted most of them in recent years? Will EMU effect changes in the structures of the euro-zone economies or, in policy, that will be conducive to higher rates of economic growth over the long term? Will the irrevocable locking of exchange rates and eventual use of a single currency reduce the costs of financial transactions and the risks associated with capital investments to such an extent as to increase the aggregate rates of capital formation, growth, and employment in the euro-zone? Will the creation of a single central bank independent of political instruction and dedicated to the attainment and maintenance of price stability, coupled with the strictures on budget deficits, create such a "culture of stability" that, as inflation is tamed once and for all, interest rates will drop to and remain at low levels, thereby fueling higher levels of production and consumption, investment and growth, and employment? Or, on the other hand, will the existence of an independent central bank that is constitutionally insulated from politics and committed above all to price stability result in a monetary policy that tolerates high interest rates in the name of fighting inflation, even at the cost of lower rates of economic growth and higher levels of unemployment? Obviously, it is much too early in the experience of EMU to answer such questions with any degree of confidence. Nevertheless, it is not too early to ask such questions and we conclude this chapter with some conjectures about the likely effects of EMU on unemployment in Europe.[33]

The Structural Effects of EMU

There can be no doubt that EMU has already had, and will continue to have, far-reaching structural consequences for the economies of the participating member states. Especially for firms involved in financial services, but also for firms in a variety of other sectors as well, the irrevocable locking of the exchange rates of the participating currencies and eventual introduction of the euro will bring greater transparency in producer costs and enable consumers to compare prices more meaningfully and to be more fully informed in making choices among competing producers. That, in turn, is likely to lead to some downward pressure on prices, and price harmonization at the low end, that will presumably be of greatest benefit to the producers that can sell profitably at the lowest price throughout the euro-zone Conversely, smaller, high-cost producers which have heretofore benefited by operating behind various forms of national protection, including the ability to price goods in national currencies, may be hurt by that downward pressure on prices.

As important as those changes in the competitive position of firms will be, both for the firms themselves and consumers, the aggregate effect of those changes on levels of unemployment is uncertain. The competitive advantages enjoyed by the low-cost producers should result in increases in employment. But any such gains may be off-set, in part or in full, by losses of jobs in the high-cost firms that are at a competitive disadvantage in the more transparent euro-economy. No doubt competitive pressures on firms will be intensified by the greater transparency of costs and comparability of prices across the euro-zone. But it is not immediately apparent that that will have any significant effect on the overall rates of unemployment in the euro-zone and its participating member states.

Beyond the employment-generating and employment-contracting firm-level effects of greater transparency, the advent of EMU and adoption of a single currency in most of the member states of the EU will undoubtedly transform certain sectors of the European economy. The financial services sector, in particular, is likely to be transformed--and has, indeed, already experienced dramatic change in such countries as France, Italy, and Spain--as some banks and other financial institutions are better able than others to create economies of scale through mergers and acquisitions and other adaptations to the larger euro-market.

The consolidation that has already begun and will surely continue in financial services will undoubtedly cause a good deal of unemployment within the sector in the short term. On the other hand, over the longer term that change may contribute to the process of job creation and a reduction in the current high levels of unemployment. For example, as the sector experiences consolidation, and increasing concentration in a smaller number of larger institutions offering the full range of financial services throughout the EU, financial markets in Europe will inevitably become deeper, more liquid, and more highly integrated.[34] That increased liquidity and depth should make it less difficult for small and new firms to obtain capital--which is potentially of great consequence for employment since most new jobs in Europe (and elsewhere) are created in small and new firms. On balance, then, the structural changes generated by EMU may quite possibly contribute to a reduction in the level of unemployment in the euro-zone over the long term through their contribution to economic growth and, in particular, by providing the institutional prerequisites for the development of new and small firms. But at least in the short term, while the process of consolidation and integration is taking place, that process could actually cause local *increases* in unemployment.

Interest Rates and Investment

While the advent of the third and final stage of EMU has already begun to trigger a series of changes at the firm and sectoral level in the European economy, it is by no means obvious that EMU will contribute (except indirectly and through those firm and sectoral changes) to the attainment of a higher rate of economic growth and a lower level of unemployment. It would, of course, be unreasonable to expect or insist that EMU have that effect; after all, EMU was not designed and implemented in order to achieve a higher rate of growth and lower level of unemployment but, rather, for other, quite different purposes.[35] That, of course, has not stopped many from assuming that, in addition to its other effects, EMU would result in an increase in the rate of growth and a decrease in the level of unemployment in Europe, and, indeed, the Commission itself claimed as much in the comprehensive analysis of the economic effects of EMU it published in 1992, soon after the completion of the Treaty on European Union.[36]

The authors of the Commission's 1992 analysis, and many others, have assumed that eliminating exchange rate uncertainty through the creation of a single currency will reduce transaction costs within the single market and increase the risk-adjusted rate of return on investment, thereby stimulating higher levels of investment, which in turn will generate higher rates of economic growth and, as a result, lower rates of unemployment. Moreover, the existence of low rates of inflation in the member states participating in EMU, the improvement in their public finances, and the credibility of their commitment to maintain those policies for the foreseeable future will, it is assumed, allow interest rates to remain at lower levels than at present, thereby further stimulating investment, growth, and employment.

There can be no doubt that the stimulation of higher levels of investment represents a necessary (if not sufficient) condition for raising the long-term rate of employment in Europe through its effect on growth. That is, relatively high levels of investment over the long term tend, all else equal, to generate relatively high rates of economic growth, and those high rates of growth, in turn, tend to drag down the level of unemployment.[37] From that perspective, the long upward drift in the rate of unemployment over the past three decades in Europe can be viewed as the result of a long downward drift over that period in both the proportion of GDP that was invested and the long-term rate of economic growth.[38] Perhaps, then, if the downward drift in investment over the past several decades is reversed, the rate of economic growth will increase and, in the wake of that increase, the rate of unemployment will decrease.

As plausible as it may be to assume that EMU will contribute to higher levels of investment, and in turn higher rates of growth and employment, it is by no means certain that it will in fact have that effect. Among other things, it is not obvious that the existence of transaction costs among the multiple currencies of the EU prior to January 1, 1999 actually deterred any investment in the eleven countries of the euro-zone--in which case the suggestion that their absence since the advent of EMU will facilitate investment may be no more than wishful thinking. For another, while it is plausible to think that the low rates of inflation, small public deficits, and commitment of the EMU participants to those policies will enable them to enjoy lower interest rates than existed prior to the run-up to the third stage, it is important to note, first of all, that for most of the EMU participants interest rates had already reached very low levels--in the range of 3-3.5 per cent--in the mid-1990s prior to the advent of EMU, meaning that there was only a limited range for any further rate reductions. It is true, of course, that several of the EMU participants with traditionally high interest rates--most notably, Italy, Spain, Portugal, and Ireland--experienced significant reductions in the run-up to EMU. But since those reductions occurred in a series of steps in 1996-98, it is likely that most, if not all, of their stimulative effect occurred prior to or in the first few months after the advent of EMU.[39]

Monetary Policy under the European Central Bank

By Articles 105 and 107 and Protocol 3 of the Treaty on European Union, the European Central Bank is singularly committed to the attainment and maintenance of price stability and free of all political instruction.[40] Even if that Treaty-derived commitment to price stability did not exist, it would be reasonable to expect that, especially in its early years, when the credibility of its commitment to maintain the value of the new currency would depend, to a large extent, upon its behavior, the ECB would maintain rates sufficiently high to prevent inflationary increases in the money supply and depreciation of the value of the euro--even at the cost of dampening the rate of economic growth and perpetuating high levels of unemployment. That would be all the more likely since the credibility of the euro as a strong currency and the ECB as the guarantor of its value will have to be established not only in international financial markets but also in the national political markets of the participating member states, some of whose publics view the imminent loss of their national currencies in early 2002 with skepticism.[41]

If one assumed that the Bank would follow the strictures of the Treaty, then, one would expect it to pay close attention to changes in various measures of growth in money, credit, and prices, and to pursue whatever course it deemed appropriate in order to maintain stable prices and the value of the euro. Yet in its first year of existence, an intriguing discrepancy appeared between this conventional view of how the Bank should and would act, and its actual behavior--a discrepancy that suggested that it would act--albeit grudgingly, perhaps--with at least some sensitivity to the issue of low growth and high unemployment.

In October, 1998, for example, the ECB's Governing Council decided that its monetary policy strategy would consist of achieving price stability--defined as an annual rate of change in the harmonized index of consumer prices of less than two per cent--by comparing changeds in a specific monetary aggregate (M3) with a quantitative target range that is judged to be consistent with price stability.[42] What is notable about this strategy, of course, was the latitude it provided the Bank. By defining price stability in terms of a range of inflation from 0 to 2 per cent, the Bank could allow the current rate of inflation in the euro-zone at the time (about 1 per cent) to double without being obliged to tighten policy. (On the other hand, it should be noted that, by defining price stability in terms of a range that begins at 0, the ECB implicitly committed itself to maintaining a vigilant posture vis-à-vis prices even when the rate of change in prices is negligible). And by targeting both the rate of inflation and a broad monetary aggregate (M3), the ECB gave itself some additional flexibility; for example, it could hold back on raising interest rates in the face of rising prices if the money supply was for some reason contracting, and, conversely, it could hold back on raising rates even if the money supply was increasing at a rate that exceeded its target as long as prices were not increasing (a situation that existed during much of 1999).

Subsequent to its adoption of a monetary policy strategy that gives it some degree of latitude and flexibility, the ECB pursued a policy that can not be understood simply in terms of its implemenation of its Treaty-mandated objectives. In December, 1998, it orchestrated a coordinated reduction in the interest rates of the eleven member states that were about to enter EMU, and in April, 1999, it lowered its benchmark rate from 3.0 to 2.5 per cent, a reduction the size of which took commentators by surprise. The combined effect of the sharp reductions in interest rates that had occurred in Italy, Spain, Ireland, and Portugal in the run-up to EMU, the small reductions in rates that took place in the other participating member states prior to January 1, 1999, and the reduction in the benchmark rate in April resulted in a euro-zone interest rate during the first year of EMU that was well below a weighted average of the rates that prevailed in the eleven member states prior to the advent of EMU. And more to the point, the Bank's benchmark rate remained unchanged for more than half a year after April, 1999, and at or near their historic lows (in nominal terms), despite increases in the M3 measure of money supply that exceeded the Bank's targeted growth rate, large increases in private sector credit, and a drop of more than ten per cent in the value of the euro relative to the dollar.

How should this apparent discrepancy between the Treaty-defined objectives of the ECB and its actual conduct be understood, and what implications, if any, can be drawn in regard to the effect of the Bank's monetary policy on unemployment? Perhaps the best way to understand the apparent discrepancy is to regard it as the inevitable disjunction between the Treaty, on one hand, and the reality of a new institution which exists and operates in a complex political and economic context, on the other. For although the ECB is, by the Treaty on European Union, highly immunized and formally independent of political direction, it nevertheless exists as one supranational institution among several, in an institutional and political context in which other interested actors are able to make their preferences in regard to monetary policy known--and in voices loud enough that even the well-insulated ECB sitting in its tower in Franfurt can hear. As Lohmann (1998: 445) argued in regard to German monetary policy, "the specifics of how a central bank is embedded in a larger political system matter a great deal".

Among the most important of the interested actors whose voices will be heard, even by the well-insulated ECB, of course, are the governments of the participating member states, meeting in the Euro-11, the newly-created forum consisting of the finance ministers of the member states participating in the euro-zone, as well as in the Councils of the EU (e.g., the Ecofin council of ministers and the European Council of heads of state and government).[43] As Oskar Lafontaine's outspoken advocacy, in the Fall of 1998 after the German election, of a reduction in interest rates demonstrated, political leaders in the participating member states will undoubtedly articulate their views and preferences in regard to monetary policy, interest rates, growth, unemployment, and other matters, irrespective of what the Treaty says about the ECB's independence from political direction, not only within the confines of EU institutions but in public as well.[44] Likewise, the European Parliament, with its powers and standing enhanced in the wake of the ratification of the Treaty of Amsterdam and the resignation of the Santer Commission in March 1999, and exercising an oversight role based on the periodic reporting to its Monetary Affairs Sub-Committee by the ECB President, will undoubtedly continue to constitute an important venue for examining, and occasionally challenging, the performance of the ECB.

As a result, however hawkish the ECB may sound, most of the time, about inflation, however much it drags its feet in moving rates down, and however great its propensity to raise rates, it may in fact exercise its discretion in ways that do not always correspond to the conventional view that it is, and will always be, concerned *only* with maintaining stable prices. Occasionally, perhaps--especially when the member states make their views known within the institutions of the EU--it may even act in such a way as to give the economy a little stimulative boost. That may not be of much consolation to those who are unemployed and those who would prefer a monetary policy that would promote growth and employment. But it *is* a bit more than they could reasonably expect from a Bank that adhered rigidly to its Treaty mandate. And it is likely to be all they *will* get.

EU-Level Employment Policy

EMU and unemployment are inextricably linked. Whether or not they are *causally* linked is a matter of debate and speculation, but they certainly are *politically* intertwined, as was made obvious at the Amsterdam meeting of the European Council in June 1997 when, in order to obtain the support of the new Socialist-dominated French government for the "Stability and Growth Pact", it issued a resolution on growth and employment that declared that it was "imperative to give a new impulse for keeping employment firmly at the top of the political agenda of the European Union [and] to strengthen the links between a successful and sustainable economic and monetary union, a well-functioning internal market and employment"[45], reaffirmed the importance of employment and the need to reduce the high levels of unemployment, especially among the young, the long-term unemployed, and the low skilled, reiterated the need for a positive and coherent approach to job creation, noted with approval the inclusion in the Treaty of a new title on employment, and announced that it would meet in the Fall of 1997 to review progress in implementing various job creation initiatives and various "good practices" in employment.[46]

In November 1997, the European Council met in Luxembourg for its "jobs summit" and agreed on a modest package of proposals to address the issue of structural unemployment. The leaders adopted a joint action plan that included, among other things, the submission to the Council of annual national action plans to reduce unemployment that would be subject to review by the Council. They agreed, among other things, that all those under the age of 25 who are unemployed should be offered new employment within six months and all others who are unemployed should receive new jobs within a year, and all of the member states except Spain agreed those targets should be met within five years. They also agreed that, in contrast to the current situation, in which only 10 per cent of the unemployed receive job retraining, at least 20 per cent of the unemployed should be offered such training. And they called upon the European Investment Bank to raise an extra Ecu 10 billion to finance small and medium-sized businesses, new technology ventures and labor-intensive projects in the service sector, including health and education, and called upon the member states to simplify their regulatory rules for small businesses and to reverse the long-term upward trend in the taxes and non-wage costs associated with employment.[47]

However well-intended the Luxembourg "jobs summit" was, and however sincere the leaders were in their commitment to reduce unemployment, it is of course obvious that a one-day meeting of leaders, and the adoption of various schemes for "national action plans", targets, and guidelines, can do very little, if anything, to reduce the high levels of unemployment that exist throughout much of the EU--especially, of course, if much of the high unemployment is, as the IMF and ECB claim, structural rather than cyclical in nature.[48] Nevertheless, the "jobs summit" may at least have concentrated greater attention on the issue of how and why job creation occurs and, in so doing, called attention to a host of "supply-side", microeconomic issues, involving unemployment benefits, tax levels and employer incentives, labor market regulations and rigidities, wage and non-wage costs, and job training and retraining, that, if addressed coherently from the perspective of increasing employment, could conceivably have a discernible effect in reducing the high level of structural unemployment, above and beyond whatever reduction occurs through the continued recovery from the synchronized recession of the early 1990s.

During the first half of 1999, the German government made the reduction of unemployment its chief priority during its presidency of the EU, and its desire to bring the national and European experiences together in an "employment pact" kept attention focused on the issue as EMU was launched.[49] Prospects for such a "pact" were, of course, dashed when Lafontaine abruptly quit as Germany's finance minister mid-way through its presidency. But Germany did at least gain support at the Köln meeting of the European Council for its proposal that (taking a leaf from its own "alliance for jobs") the EU undertake a tripartite macroeconomic dialogue with employers and labor aimed at creating jobs. Whether such talks will take place on a regular basis and prove to be effective in alleviating unemployment remains to be seen. But what is perhaps most interesting, and potentially of greatest significance in the long run, about the decisions taken at Amsterdam, Luxembourg, and Köln, is that, in the wake of EMU, the problem of unemployment policy has not only become a high priority for the political leadership of Europe but has become one in which the EU has begun to play an increasingly important role.

Conclusion

Over the past three decades, Europe has become a region afflicted by high rates of unemployment. With few exceptions, the member states of the EU not only suffer rates of unemployment that are considerably higher than those experienced two or three decades ago and are considerably higher than those experienced by the United States and Japan. They also suffer, again with a few notable exceptions, from an inability to create large numbers of new jobs, an inability to create jobs for young workers, especially young women, and an inability to put back to work those who have lost jobs. And they suffer from the existence of large geographically-concentrated regions of high unemployment.

This paper has examined the enduring problem of high unemployment in Europe. It considered how the rate of unemployment has varied across time and space in the European Union, and how it has varied in regard to age, gender, and region. After describing those temporal and spatial variations in some detail, it considered why it was that, notwithstanding the general upward trend in unemployment throughout Europe in recent decades, some of the member states of the EU were far more successful than others in creating large numbers of new jobs and resisting the upward trend--and, in a few instances, even reversing the upward trend. Among the factors that appear to have allowed some of the member states to create enough new jobs to reduce the rate of unemployment over the long term--that is, to reduce the structural level of unemployment--are, in addition to the obvious importance of sustained high rates of economic growth, political-institutional features involving the government and the institutions that influence the collective behavior of economic actors. In particular, government by Socialist, Social Democratic, or Labor parties following a substantial period of government by conservative parties, and the existence of institutional venues for bargaining between employers and unions over wages and work appear to have resulted in policies and agreements that have contributed to significant reductions in unemployment in some member states.

On January 1, 1999, eleven member states of the European Union entered the third and final stage of Economic and Monetary Union. The advent of EMU undoubtedly represented one of the most dramatic and far-reaching institutional changes to have occurred over the past four decades in Europe, and it is logical--even necessary--to consider the likely effects of EMU on the enduring problem of high unemployment. The concluding section of the chapter considered several aspects of EMU that might conceivably affect the rate of unemployment in the euro-zone as a whole and in the individual participating member states--for example, the impact of EMU on the structure and competitive environment of the European economies, its possible effect on interest rates and investment levels and, through them, on rates of growth and employment, and, finally, the likely effect of the ECB's monetary policy. The discussion suggested, for example, that the structural changes generated by EMU may have both employment-creating and employment-destroying effects, probably the latter before the former. It suggested that EMU may not, contrary to its institutional proponents, result in any significant increase in levels of investment over the long term, apart from that derive indirectly from the structural changes. And it suggested, on the other hand, that the ECB may act on occasion in ways that are more nuanced, and occasionally even more sensitive to issues of growth and employment, than one would predict on the basis of its constituting documents--in large part because, although politically insulated and formally independent of political instruction, the ECB is embedded in a complex and densely articulated web of national and supranational institutions that are, themselves, embedded in the societies, economies, and polities of Europe.

It is, of course, much too soon to say whether the advent of EMU in eleven of the member states of the EU will eventually provide a remedy for the enduring high levels of unemployment that continue to afflict most of Europe. Perhaps the most that can be said, at this early point in the history of EMU, is that how Europeans come to think about and evaluate EMU in the future will in all likelihood depend on how it is perceived to have affected the performance of the European economies. And that, in turn, is likely to depend in large part on whether the governments of the euro-zone participants, acting not only individually but collectively through the institutions of the EU, are able, within the constraints introduced by EMU, to create the social, political, and economic conditions and policies necessary for sustained growth, job creation, and employment. It is still very early in the life of EMU. But there are intriguing suggestions--in the active role in macroeconomic policy coordination taken by the Euro-11 grouping and the decisions taken in regard to employment issues at the Amsterdam, Luxembourg, and Köln meetings of the European Council--that one significant effect of EMU has been to raise the salience of unemployment and make it increasingly a matter for collective action by the member states acting through the institutions of the EU.

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Table 1. Unemployment and Growth in the European Union, the U.S., and Japan

Average Annual Per Cent of Civilian Labor Force, Unemployed

	1961-70	1971-80	1981-90	1991-99
European Union	2.2	4.0	9.0	10.1
United States	4.7	6.4	7.1	5.8
Japan	1.2	1.8	2.5	3.1

Average Annual Per Cent Change, GDP in Constant Prices

	1961-70	1971-80	1981-90	1991-99
European Union	4.8	3.0	2.4	1.9
United States	4.2	3.2	2.9	2.5
Japan	10.5	4.5	4.0	1.1

Source: European Commission 1998b, 69, 83. The measures of unemployment follow Eurostat definitions.

Table 2. Job Creation in the European Union, the U.S., and Japan, 1961-99

Average Annual Change in Total Employed

	1961-70	1971-80	1981-90	1991-99
European Union	0.3	0.4	0.5	0.0
United States	1.9	2.0	1.8	1.5
Japan	1.4	0.7	0.9	0.4

Source: European Commission 1998b, 67.

Table 3. Per Cent of Civilian Labor Force, Unemployed in the European Union

	1961-73 Ave.	1974-85 Ave.	1986-90 Ave.	1991-96 Ave.	1997	1998	1999 (July)
Belgium	2.0	7.7	8.7	8.8	9.4	9.5	9.0
Denmark	0.9	6.4	6.4	8.3	5.6	5.1	4.5
Germany	0.7	4.2	5.9	7.6	9.9	9.4	9.1
Greece	4.5	3.8	6.6	8.5	10.0	11.6	
Spain	2.8	11.3	18.9	21.1	20.8	18.8	15.9
France	2.2	6.4	9.7	11.3	12.3	11.7	11.0
Ireland	5.6	10.6	15.5	14.0	9.8	7.8	
Italy	5.2	7.0	9.6	10.6	12.1	12.2	
Luxembourg	0.0	1.7	2.1	2.7	2.8	2.8	2.8
Netherlands	1.3	7.1	7.4	6.4	5.2	4.0	3.2
Austria	1.6	2.5	3.4	3.8	4.4	4.7	4.3
Portugal	2.5	6.9	6.1	5.9	6.8	4.9	4.5
Finland	2.3	4.8	4.3	14.2	12.7	11.4	9.8
Sweden	2.0	2.4	2.0	7.6	9.9	8.3	6.8
U.K.	2.0	6.9	9.0	9.3	7.0	6.3	
EU	2.3	6.4	8.9	10.0	10.6	10.0	
Euro-11	2.5	6.6	9.4	10.7	11.6	10.9	10.2

Source: European Commission 1998b: 224-53; Statistical Office of European Communities 1999: 57-9. The data reported here are seasonally adjusted and use Eurostat's standardized definition of unemployment. The data are identical to the standardized measures of unemployment reported by the OECD. July 1999 figures: Eurostat press release, Sept. 8, 1999.

Table 4. Average Annual Per Cent Change in Total Employment in the EU, 1961-99

	1961-70	1971-80	1981-90	1991-99
Belgium	0.5	0.2	0.2	0.1
Denmark	1.1	0.7	0.5	0.5
Germany	0.2	0.2	0.5	-0.5
Greece	-0.8	0.7	1.0	0.5
Spain	0.6	-0.6	0.8	0.9
France	0.6	0.5	0.2	0.2
Ireland	0.0	0.9	-0.2	2.7
Italy	-0.5	1.0	0.6	-0.5
Luxembourg	0.6	1.2	1.7	2.8
Netherlands	1.2	0.2	0.6	1.4
Austria	-0.5	0.7	0.1	0.4
Portugal	0.2	0.1	0.2	0.4
Finland	0.4	0.2	0.4	-1.2
Sweden	0.7	0.8	0.7	-1.1
U.K.	0.3	0.3	0.5	0.2
EU	0.3	0.4	0.5	0.0
Euro-11				

Source: European Commission 1998b: 66-67.

Table 5. Cumulative Change in Total Employment in the EU, 1985-97

	1985-91	1991-97
Belgium	5.9	3.2
Denmark	2.0	2.6
Germany	10.2	-7.1
Greece	1.2	6.1
Spain	18.5	1.2
France	4.1	-0.9
Ireland	6.1	21.1
Italy	4.1	-4.6
Luxembourg	21.9	16.4
Netherlands	14.6	9.2
Austria	7.4	2.1
Portugal	11.3	-1.9
Finland	-4.0	-8.0
Sweden	3.6	-10.8
U.K.	7.9	1.5
EU	7.7	-1.7

Source: European Commission 1998a: 149-64. The data for Germany in 1985-91 is for the pre-1990 Federal Republic only.

Table 6. Per Cent of Working Age Population (15-64) Employed in the EU, 1985-97

	1985	1991	1997	Change 1985-97
Belgium	53.1	56.1	57.3	4.2
Denmark	77.4	76.6	77.5	0.1
Germany	63.1	67.5	61.8	-1.3
Greece	57.3	54.7	56.7	-0.6
Spain	44.1	49.7	48.6	4.5
France	62.0	62.0	60.1	-1.9
Ireland	51.4	52.7	57.8	6.4
Italy	53.0	53.7	51.3	-1.7
Luxembourg	59.0	61.1	60.6	1.6
Netherlands	57.7	63.0	66.7	9.0
Austria	67.3	69.8	69.9	2.6
Portugal	63.5	67.7	67.5	4.0
Finland	75.2	71.4	63.9	-11.3
Sweden	80.3	80.9	69.5	-10.8
U.K.	66.2	70.8	70.8	4.6
EU	59.8	62.6	60.5	0.7

Source: European Commission 1998a: 149-64.

Table 7. Unemployment by Age and Gender in the EU, the United States, and Japan 1998

(% of Active Labor Force)

	EU	U.S.	Japan
All	10.0	4.5	4.1
All Men	8.6	4.4	4.2
All Women	11.8	4.6	4.0
All < 25	19.5	10.4	6.9
Men < 25	18.2	11.1	6.7
Women < 25	21.0	9.8	7.1

Source: Statistical Office of the European Communities 1999: 57-59.

Table 8. Unemployment in the EU by Age and Gender, 1998

(% of Active Labor Force)

	All	All Men	All Women	All < 25	Men < 25	Women < 25
Belgium	9.5	7.7	11.9	22.1	19.7	25.1
Denmark	5.1	3.9	6.5	7.4	6.8	8.0
Germany	9.4	8.9	10.2	9.8	10.6	9.0
Greece	11.6	7.8	17.4	32.1	23.0	42.3
Spain	18.8	13.8	26.6	35.4	29.0	43.3
France	11.7	9.9	13.8	26.6	24.2	29.2
Ireland	7.8	8.0	7.6	11.5	11.8	11.1
Italy	12.2	9.4	16.7	31.6	28.3	36.0
Luxembourg	2.8	2.0	4.2	6.9	7.0	6.8
Netherlands	4.0	3.0	5.2	7.8	7.6	8.1
Austria	4.7	3.9	5.6	6.6	5.3	8.1
Portugal	4.9	3.9	6.1	9.8	8.2	11.8
Finland	11.4	10.8	12.0	23.5	22.5	24.6
Sweden	8.3	8.6	8.0	16.7	17.3	16.1
U.K.	6.3	7.0	5.5	13.6	15.2	11.7
EU	10.0	8.6	11.8	19.5	18.2	21.0
Euro-11	10.9	9.1	13.4	21.1	19.2	23.4

Source: Statistical Office of the European Communities 1999: 57-59.

Table 9. Per Cent of the Population Aged 15-64 in Active Labor Force, 1997

	All	Men	Women
Belgium	63.1	72.7	53.3
Denmark	82.4	87.9	76.8
Germany	68.7	77.1	60.2
Greece	62.8	79.8	47.1
Spain	61.3	75.6	47.3
France	68.5	75.7	61.5
Ireland	64.3	78.0	50.4
Italy	58.4	73.1	43.9
Luxembourg	62.8	77.7	48.9
Netherlands	70.4	81.3	59.2
Austria	73.0	83.3	62.8
Portugal	72.5	82.1	63.6
Finland	74.0	76.8	71.2
Sweden	77.4	79.6	75.0
U.K.	76.2	84.4	68.0
EU	67.8	77.8	57.7

Source: European Commission 1998a: 149-64.

Table 10. Per Cent of All Unemployed, Unemployed For More Than One Year, 1997

	All	Men	Women
Belgium	60.5	59.5	61.6
Denmark	27.2	25.0	27.7
Germany	50.1	47.1	53.6
Greece	55.7	45.3	62.0
Spain	51.8	45.7	57.3
France	39.6	38.0	41.0
Ireland	56.6	63.4	46.6
Italy	66.3	66.5	66.2
Luxembourg	na	na	na
Netherlands	49.2	49.7	48.3
Austria	28.5	28.6	27.6
Portugal	55.4	53.4	57.3
Finland	29.6	31.9	27.1
Sweden	34.2	35.5	32.2
U.K.	38.6	44.8	27.8
EU	49.0	47.4	50.6

Source: European Commission 1998a: 149-64.

Table 11. Part-Time Employment and Work on Fixed-Term Contracts in the EU, 1997

	% of Total Employed, Employed Part-Time			% of Total Employed, On Fixed-Term Contracts
	All	**Men**	**Women**	
Belgium	14.7	3.3	31.4	6.3
Denmark	22.2	12.1	34.5	11.1
Germany	17.5	4.2	35.1	11.7
Greece	4.6	2.6	8.1	10.9
Spain	8.2	3.2	17.4	33.6
France	16.8	5.4	30.9	13.1
Ireland	12.3	5.4	23.2	9.4
Italy	7.1	3.3	13.7	8.2
Luxembourg	7.7	1.0	19.4	2.1
Netherlands	38.0	17.0	67.9	11.4
Austria	14.9	4.0	29.0	7.8
Portugal	9.9	5.7	15.0	12.2
Finland	11.4	7.6	15.6	17.1
Sweden	24.5	9.3	41.4	12.1
U.K.	24.9	8.8	44.9	7.4
EU	16.9	5.8	32.4	12.2

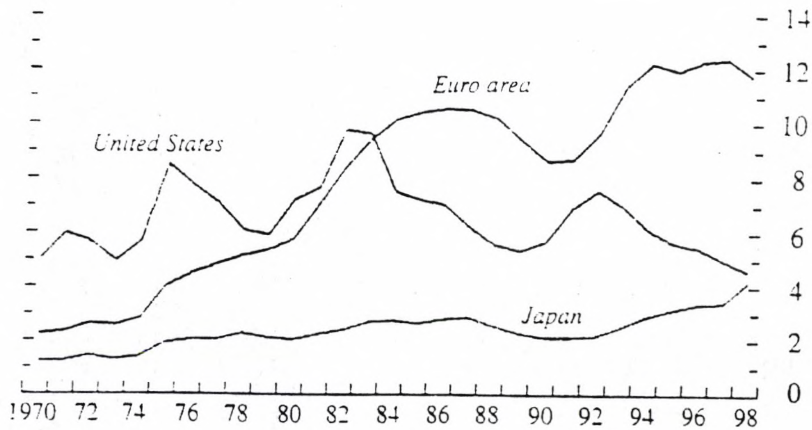
Source: European Commission 1998a: 149-64.

Table 12. Summary of Unemployment and Job Creation in the EU in the 1990s

	% Civ. Lab. Force Unemployed			% A.L.F. < 25 yr. Unempl.	% Unempl. > 1 yr.	% Change Total Number Unempl.	% Pop. 15-64 Employed	
	1998	Change 1991-96 to 1998	Change 1974-85 to 1998	1998	1997	1991 to 1997	1997	Change 1985 to 1997
Belgium	9.5	0.7	1.8	22.1	60.5	3.2	57.3	4.2
Denmark	5.1	-3.2	-1.3	7.4	27.2	2.6	77.5	0.1
Germany	9.4	1.8	5.2	9.8	50.1	-7.1	61.8	-1.3
Greece	11.6	3.1	7.8	32.1	55.7	6.1	56.7	-0.6
Spain	18.8	-2.3	7.5	35.4	51.8	1.2	48.6	4.5
France	11.7	0.4	5.3	26.6	39.6	-0.9	60.1	-1.9
Ireland	7.8	-6.2	-2.8	11.5	56.6	21.1	57.8	6.4
Italy	12.2	1.6	5.2	31.6	66.3	-4.6	51.3	-1.7
Luxembourg	2.8	0.1	1.1	6.9	na	16.4	60.6	1.6
Netherlands	4.0	-2.4	-3.1	7.8	49.2	9.2	66.7	9.0
Austria	4.7	0.9	2.2	6.6	28.5	2.1	69.9	2.6
Portugal	4.9	-1.0	-2.0	9.8	55.4	-1.9	67.5	4.0
Finland	11.4	-2.8	6.6	23.5	29.6	-8.0	63.9	-11.3
Sweden	8.3	0.7	5.9	16.7	34.2	-10.8	69.5	-10.8
U.K.	6.3	-3.0	-0.6	13.6	38.6	1.5	70.8	4.6
EU	10.0	0.0	3.6	19.5	49.0	-1.7	60.5	-2.1

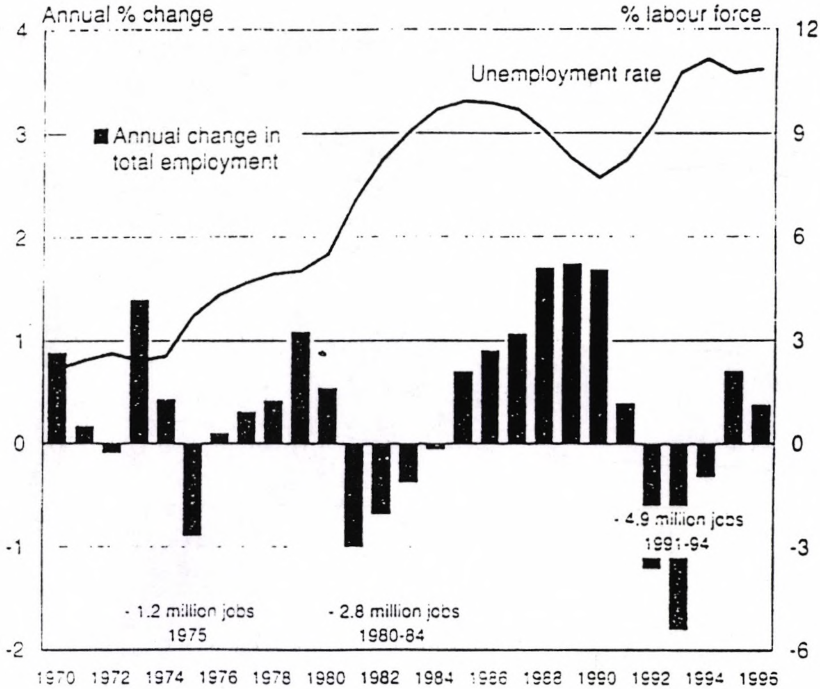
Source: Tables 3, 5, 6, 8, and 10 and European Commission 1998a: 149-64.

Figure 1. Unemployment Rates in the European Union, the United States, and Japan, 1970-98



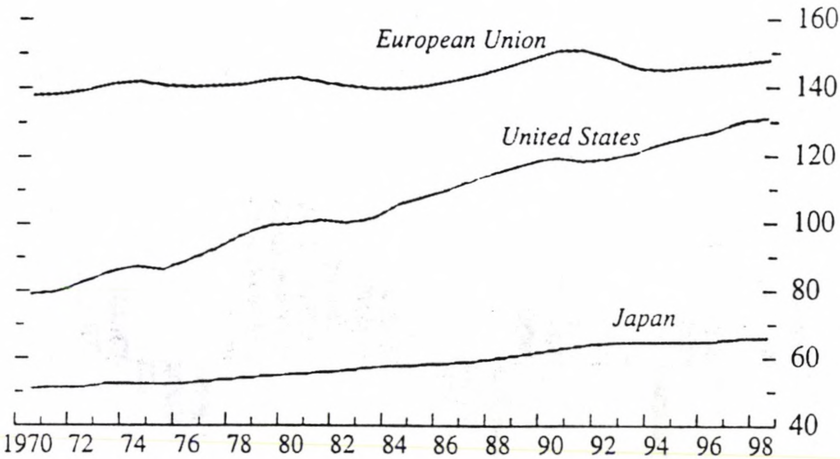
Source: IMF 1999: 88.

Figure 2. The Annual Change in Total Employment and the Rate of Unemployment in the EU, 1970-96



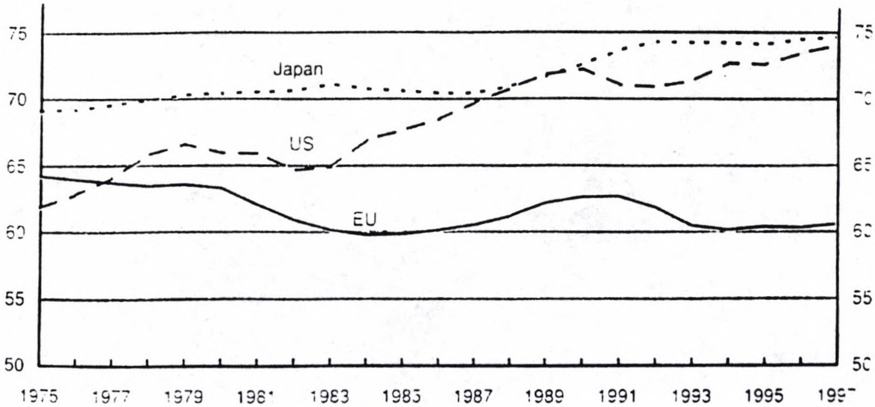
Source: European Commission 1997a: 13.

Figure 3. Number of Persons in Millions Employed in the EU, the U.S., and Japan, 1970-98



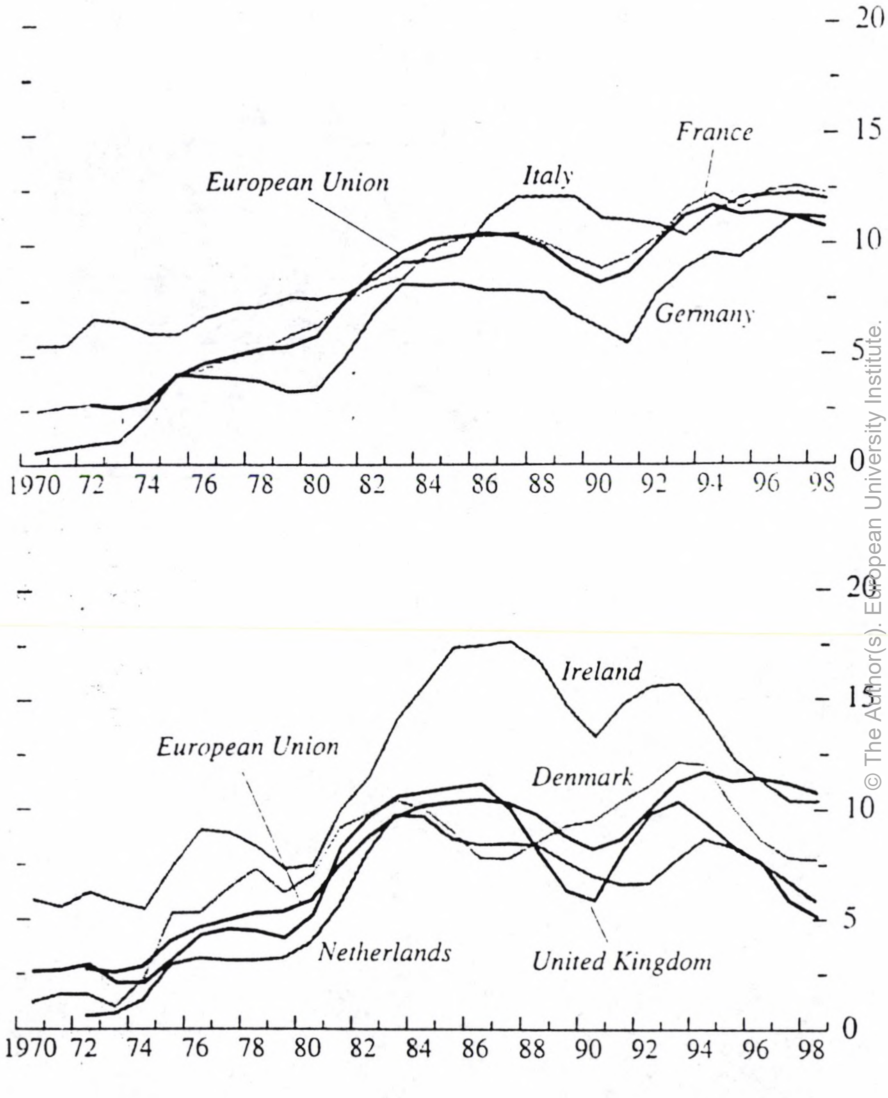
Source: IMF 1997b: 39.

Figure 4. Per Cent of Working-Age Population Employed in the EU, the U.S., and Japan, 1975-97



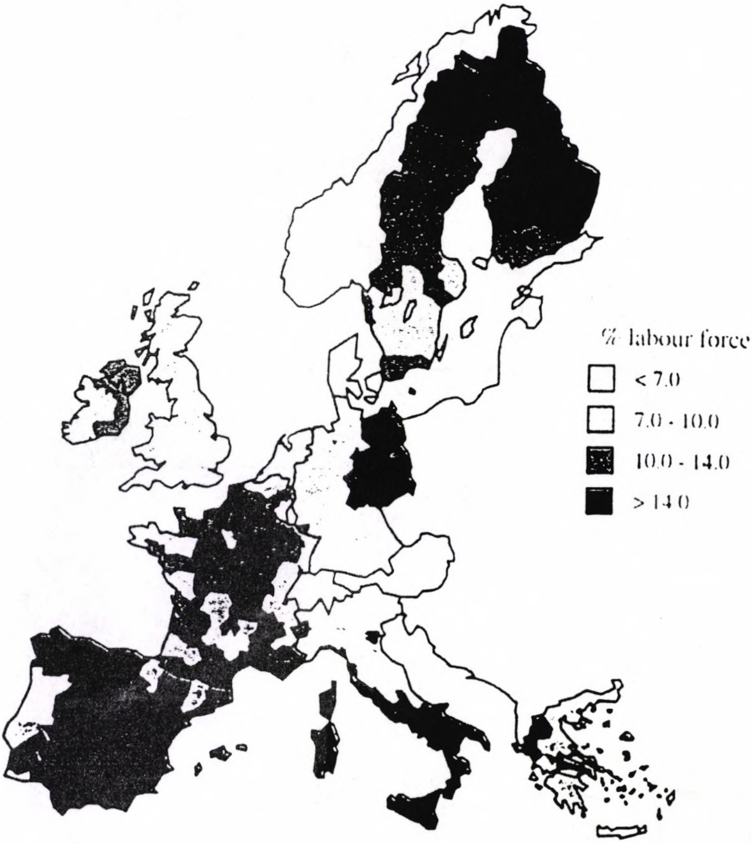
Source: European Commission 1998a: 25.

Figure 5. The Rate of Unemployment in Selected Member States of the EU, 1970-98



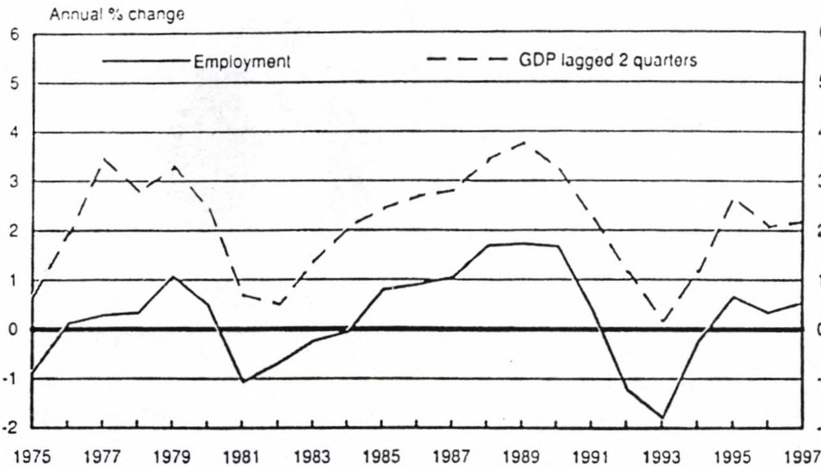
Source: IMF 1997b: 40.

Figure 6. The Geographical Distribution of Unemployment in the EU, 1997



Source: European Commission 1998a:31.

Figure 7. The Relationship Between Economic Growth and the Change in Employment in the EU, 1975-97



Source: European Commission 1998a: 29.

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NOTES

1. This paper will appear as a chapter in Nancy Bermeo, ed., *Unemployment in the New Europe* (Cambridge University Press, 2000). Earlier versions were presented at conferences or seminars at Princeton University, Harvard University, and the European University Institute. For their helpful comments and suggestions, I wish to thank Jens Alber, Sheri Berman, Nancy Bermeo, Matthew Canzoneri, Peter Hall, Torben Iversen, Peter Kenen, Sofía Pérez, Martin Rhodes, and Thomas Risse.
2. See European Commission 1998b: 224-53.
3. See Shonfield 1969.
4. European Commission 1998b: 253.
5. See *Financial Times*, August 11, 1999, p. 2.
6. For discussions of the high levels of unemployment in Europe in the 1980s and 1990s, see, among many, Alogoskoufis et al. 1995, Bean 1994, Bean, Layard, and Nickell, eds. 1987, Benoit-Guilbot and Gallie 1994, Bentolila and Blanchard 1994, Blanchard, Jimeno et al. 1995, Blanchard and Summers 1986, Blanchard and Wolfers 1999, Dolado and Jimeno 1997, Drèze and Malinvaud 1995, European Commission 1997a and 1998a, Henry and Snower, eds. 1996, IMF 1999, Layard, Nickell, and Jackman 1991 and 1994, Lindbeck 1993, Lindbeck and Snower 1988, OECD 1994a, Rubery, Smith, Fagan, and Grimshaw 1998, Saint-Paul 1995 and 1996, Snower and de la Dehesa, eds. 1997, and Summers 1990.
7. On December 3, 1998, the ECB engineered a coordinated cut in rates in all of the member states (except Italy) that were planning to enter the third stage of Economic and Monetary Union on January 1, 1999. The Italian rate remained at 3.5 per cent; the others dropped to 3 per cent. On April 8, 1999, the ECB reduced its benchmark rate from 3.0 per cent to 2.5 per cent. In the first seven months of 1999, the value of the euro dropped about 14 per cent, from its initial high of $1.1877 on January 4 to a low of $1.0218 on July 16.
8. As of July, 1999, the rate of unemployment in the eleven members of the euro-zone was 10.2 per cent, compared to 10.9 per cent a year earlier. See *Financial Times*, September 21, 1999, p. 2. The ECB's forecast of unemployment in the euro-zone in 2000 appeared in its monthly report for June, 1999. See the *Financial Times*, June 16, 1999, p. 2.
9. The quite remarkable drop in Spain reflects an equally remarkable record of job creation over the four years from 1996 through 1999. During that period, as many new jobs were created in Spain as in all of the other members of the euro-zone taken together. See *Financial Times*, May 20, 1999, p. III, and August 13, 1999, p. 2.
10. *Financial Times*, September 8, 1999, p. 2.
11. *Financial Times*, July 1, 1999, p. 1.
12. Greece has announced that it will seek to join the euro-zone in 2001. Denmark and Sweden will hold referenda on the question of EMU particiaption in 2000 or 2001, and Britain is expected to do likewise soon after the general election of 2001 or 2002.
13. See European Commission 1998b: 69.
14. In the Spring of 1999, the Commission predicted that the rate of unemployment in the euro-zone would be 10.4 per cent in 1999 and 9.4 per cent in 2000. The IMF predicted rates of 11.3 per cent in 1999 and 11.0 per cent in 2000, while the OECD predicted that unemployment would be 11.2 per cent in 1999 and 10.6 per cent in 2000. See *Financial Times*, "Survey: The European Economy", May 28, 1999, p. 4.

15. For a discussion of the role of exogenous shocks in the rise of European unemployment, see Blanchard and Wolfers 1999.
16. On French policy under Mitterrand and the Socialist-dominated government in the early 1980s, see Cameron 1996. On the policy of the Spanish Socialist government that came to power in 1982, see Pérez 1997 and 1999a.
17. See, among many, Cameron 1997, 1998a, and 1998b, Eichengreen 1997, and Kenen 1992 and 1995.
18. For the most comprehensive treatment to date of gender and employment, see Rubery, Smith, Fagan, and Grimshaw 1998.
19. For the best treatment yet published on long-term unemployment in Europe, see Benoit- Guilbot and Gallie 1994.
20. There appears to be no discernible relationship between the proportion of employees on fixed-term contracts and the several aspects of unemployment. Spain stands out as exceptional in its high reliance on such contracts. Fixed-term contracts were introduced in Spain by the Socialist government in order to induce employers to hire workers by excluding the latter from the rights (e.g., in collective bargaining) and protections against layoffs (e.g., claims to indemnification payments) that had carried over from the Franquist era. For discussion of the extent to which (if at all) the use of fixed-term contracts in Spain contributed to job creation and the reduction of unemployment in the late 1980s and mid-to- late 1990s, see the chapters by Richards and Polavieja and by Maravall and Fraile in Bermeo 2000.

We might note that in 1997 public and private sector employer organizations and unions agreed, in negotiations conducted under the "social protocol" of the Treaty on European Union, to extend certain rights and benefits to part-time workers in regard to holidays, pension contributions, and dismissal. In 1999, they agreed to extend to fixed-contract workers rights enjoyed by those without fixed-term contracts, give legal protection to all workers on fixed-term contracts except temporary workers, limit the use of successive fixed- term contracts, and improve the quality of fixed-term work. See *Financial Times,* February 3, 1998, p. 2; and February 19, 1999, p. 3.
21. On the effects of openness, see Cameron 1978.
22. Economic Commission 1998b: 236.
23. As the Commission (1998a: 29) notes, Figure 7 suggests that aggregate productivity--growth in GDP per person employed--has consistently increased by a little less than two per cent a year in the EU, meaning that a growth rate in excess of two per cent a year is needed in order for employment to increase.
24. That FDI was aggressively solicited by the government's development agency, which offered subsidies, low taxes, and tax rebates. Much of it was concentrated in the high-technology, export-oriented sector--e.g., office and computing equipment, electrical engineering, high-end consumer electronics, pharmaceuticals, etc.--and targeted markets in the EU. By 1997, Irish exports were equivalent to 80 per cent of GDP, a figure surpassed among the member states of the EU only by Luxembourg, and Irish exports to the EU constituted more than one-half of the Irish GDP. See IMF 1997b: 62-63 and European Commission 1998b: 134-35.
25. See, among many, Bentolila and Blanchard 1990, Blanchard et al. 1995, Boix 1997, Dolado and Jimeno 1997, and Pérez 1997 and 1999a. For discussions of the intriguing difference between Spain and Portugal in regard to unemployment, see Blanchard and Jimeno 1995, Blanchard and Portugal

1998, and Glatzer 1998.

26. In 1994-96, Spain's average annual rate of economic growth was between 2 and 3 per cent. In 1997-99, its average annual rate of growth was between 3.5 and 4 per cent. See European Commission 1998b: 82.

27. On the re-appearance in the late 1990s of national-level bargaining in Spain, see Pérez (1999b). While 1997 negotiations took place after the Aznar government had come to power, Pérez notes that the stage was set for those negotiations by a 1994 agreement between employers and the unions to shift some aspects of the regulation of labor markets to the collective bargaining process.

28. See *Financial Times*, "Survey: Spain", p. IV, June 8, 1998; June 12, 1998, p. 2; and August 3, 1998, p. 13; and "Survey: Spain", May 20, 1999, p. III.

29. See, for example, Casey 1999, Hemerijck and Schludi 1999, Pérez 1999b, the chapter by Rhodes in Bermeo 2000, Streeck 1998, Van Ruysseveldt and Visser 1996. For a discussion of the earlier forms of "corporatism", see, among many, Cameron 1984 and Calmfors and Driffill 1988.

30. For a discussion of corporatist arrangements that noted the propensity of national labor movements to forsake wage militancy in exchange for the attainment and maintenance of near-full employment, see Cameron 1984.

31. See *Financial Times*, September 23, 1997, p. 1; and October 23, 1997, p. IV. For a discussion of the Waasenaar agreement, see Visser and Hemerijck 1997, as well as de Beus 1998 and Van Ruysseveldt and Visser 1996.

32. The "Pact" is designed to keep the budget deficits of the member states participating in the single currency below 3 per cent of GDP, one of the reference figures stipulated in the Treaty on European Union for determining whether an "excessive" deficit exists. The "Pact" stipulates a series of actions, including the imposition of sanctions, by the Council in the event a member state incurs a budget deficit in excess of 3 per cent of GDP that is not "exceptional and temporary". For the terms of the "Pact", see European Commission 1997b: 41-2, 49-53. For a discussion, see Eichengreen and Wyplosz 1998.

33. For earlier discussions of these issues, see Cameron 1997 and 1998b.

34. For a discussion of the transformation now underway in the European financial sector, see European Central Bank 1999.

35. For discussions of why the member states of the European Community pursued EMU, see, among many, Cameron 1995, 1997, and 1998b, Dyson 1994, Dyson and Featherstone 1999, Eichengreen 1997, Kenan 1992 and 1995, and McNamara 1998.

36. See Emerson et al. 1992.

37. Data published by the Commission suggest a very strong inverse relationship over time in the EU between the ratio of investment to GDP and the level of unemployment, as well as a very close positive relationship between annual change in Gross Fixed Captial Formation and growth, and a strong positive relationship between the rate of growth and employment. See European Commission 1998b: 206-7.

38. Thus, the proportion of GDP allocated to gross fixed capital formation in the fifteen current members of the EU dropped from 23.2 per cent in 1961-70 to 22.8 per cent in 1971-80, 20.1 per cent in 1981-90, and 19.1 in 1991-97. See European Commission 1998b: 237, 255. For the average rates of economic growth over that period, see Table 1.

39. The EMU-related reduction in interest rates may be a major factor accounting for the high rates of growth, and sharp drops in unemployment, in Spain, Ireland, and Portugal. The Italian experience

is anomalous in this regard; rather than stimulating a resurgence in growth and diminution in unemployment, the drop in Italian interest rates appears to have had little effect on growth and employment.

40. See European Communities 1992.

41. See European Commission 1999.

42. See *Financial Times*, October 15, 1998; p. 2.

43. For a discussion of the negotiations leading up to the formation of the Euro-11, see Cameron 1997, 1998a, and 1998b. See, also, the interview with Dominique Strauss-Kahn, the French finance minister, in *Financial Times*, February 12, 1999, p. 18.

44. On numerous occasions in October and November 1998, Lafontaine called upon the ECB to lower interest rates. The ECB's coordinated reduction in rates to 3 per cent in December muted those calls for a while, but by February 1999, as growth estimates in Germany for 1999 continued to drop, Lafontaine renewed his campaign. Not surprisingly, the ECB refused to lower its benchmark rate. But at its first meeting after Lafontaine's abrupt resignation in March, the Governing Council of the ECB dropped its benchmark from 3 to 2.5 per cent.

45. Resolution of the European Council on growth and employment, Amsterdam, June 16, 1997, in European Commission (1997b: 42-44).

46. See European Commission (1997b: 42-44).

47. See *Financial Times*, November 22-23, 1997, p. 2. The Commission had proposed that the Council adopt an ambitious set of targets--the creation of 12 million new jobs, reduction in the level of unemployment to 7 per cent, and halving of the rates of long-term and youth unemployment over the next five years. The leaders did not endorse those quantitative targets. For the Commission's proposals, see *Financial Times*, October 2, 1997, p. 3, and *The Economist*, October 4, 1997, pp. 54, 57.

48. The ECB has argued that unemployment in Europe is "overwhelmingly structural" and the IMF estimates that approximately three-quarters of unemployment in the euro-zone is structural in nature. The Commission has taken a more nuanced view, arguing that both structural and cyclical elements are present. Thus, in the paper it prepared for the Luxembourg summit, it attributed the current high level of unemployment primarily to the low rate of economic growth in most of Europe in recent years. See *Financial Times*, October 2, 1997, p. 3, *The Economist*, October 4, 1997, pp. 54, 57, and IMF 1998: 89.

49. Financial Times, January 19, 1999, p. 3.

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